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May 16, 2019

Commission Secretary  
410-900 Howe Street  
Vancouver, BC V6Z 2N3

Via: e-mail  
[Commission.Secretary@bcuc.com](mailto:Commission.Secretary@bcuc.com)

Attention: Patrick Wruck  
Commission Secretary and Manager, Regulatory Services

**RE: Nelson Hydro – 2019 Rural Rate Application - Response to BCUC IR No.1**

Nelson Hydro respectfully submitting responses to INFORMATION REQUEST NO. 1 received from the Utilities Commission.

We are also attaching IR 8.2 confidential attachment with sensitive customer information.

Sincerely,

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

Nelson Hydro  
2019 Rural Rate Application

**RESPONSE TO INFORMATION REQUEST NO. 1 TO NELSON HYDRO**

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## A. GENERAL

### 1.0 Reference: GENERAL Exhibit B-1, p. 2 Nelson Hydro service area

On page 2 of the 2019 Rural Rate Application (Application), Nelson Hydro forecast 10,614 total customers in 2019, with approximately 42.90 percent serviced in the rural area and 57.10 percent in the urban area.

The City of Nelson's website provides the Nelson Hydro utility boundary map.<sup>1</sup>

- 1.1 Please provide a map that shows Nelson Hydro's urban and rural service areas. If applicable, note in the map any areas that are serviced by FortisBC Inc. (FBC) or British Columbia Hydro and Power Authority (BC Hydro).

**RESPONSE:** Please see BCUC IR 1 - IR 1.1 Attachment - Service Area that includes a map showing Nelson Hydro Service Area. The Rural service area includes North Shore, South Shore and Remote Service Areas. Nelson Hydro service area is surrounded by Fortis BC service area.

### 2.0 Reference: GENERAL Exhibit B-1, p. 2 Interim vs. permanent rates

On page 2 of the Application, Nelson Hydro states:

... if the final approved rates by the Commission for this proceeding differ from the interim rates, Nelson Hydro does have the capability to adjust the rates in its billing system, CIS, to show a refund in the current year.

... If adjustments between interim and final rates are not significant, it would be more efficient to implement that change in the subsequent year similar to the previous approach taken by Nelson Hydro [e.g., 2018 adjustment is incorporated into the 2019 rate change]. If the adjustment is significant, Nelson Hydro will include its proposal in the compliance filing.

- 2.1 Please confirm, or otherwise explain, that Nelson Hydro's billing system has the capability to collect from customers if the approved final rate is greater than the interim rate.

**RESPONSE:** The Nelson Hydro billing system can accommodate rate changes for future dates. Any rate changes involving retroactive dates need to be manually calculated to arrive at an equivalent rate, to collect or refund the amount, for a future date which can then be

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<sup>1</sup> Nelson Hydro, Utility Boundary Appendix B (December 2000), retrieved from [https://www.nelson.ca/DocumentCenter/View/392/Electrical-Service-Area-Map-2009-PDF?bidId=.](https://www.nelson.ca/DocumentCenter/View/392/Electrical-Service-Area-Map-2009-PDF?bidId=)

implemented in the billing system. The timing of the required adjustment can impact the equivalent rate, for example, if the final rates are approved close to the end of the billing year then the equivalent rate would be higher in order to collect shortfall/refund surplus for a whole year for only a few months.

2.2 Nelson Hydro proposes that the treatment for any difference between the final rate and interim rate should depend on whether that amount is “significant.” In Nelson Hydro’s view, what is a “significant” amount? What should the Panel consider when determining whether Nelson Hydro should make an adjustment now versus deferring the difference until the next rate application? Please explain the pros and cons for each of the two approaches.

**RESPONSE:** In 2017, the City of Nelson Auditor used a level of materiality of 0.43%. Therefore, with annual revenues at about \$18 million the amount of greater than approximately \$75,000 would be considered to be significant for Nelson Hydro.

Adjust in the Current Year:

Pros:

- Makes revenue adjustments within the year it was intended

Cons:

- Results in more than one rate change within a year
- Administrative cost to implement a second rate adjustment

Adjust in following year:

Pros:

- Administratively simpler
- Lower frequency of rate changes seen by customers

Cons:

- Defers revenue adjustment to year after which it was intended

**3.0 Reference:** **GENERAL**  
**Exhibit B-1, p. 1;**  
**Nelson Hydro 2017 Rate Application, Order G-119-17, reasons for decision, p. 23**  
**Timing of the application and effective date**

In the reasons under Order G-119-17, on page 23, Nelson Hydro was directed to file its rate applications 30 days in advance of the start of the applicable calendar year in order for the British Columbia Utilities Commission (BCUC) to approve rates effective the full calendar year.

Nelson Hydro filed its Application on March 8, 2019.

On page 1 of its Application, Nelson Hydro submits that it is implementing a 2.94 percent general rate increase to all Rural classes effective April 1, 2019, which will result in an effective rate increase of approximately 2.03 percent for the 2019 calendar year.

- 3.1 Please explain whether Nelson Hydro has made any adjustments to its 2019 budgets and forecasts in the Application due to the three-month delay in its filing. If no adjustments are necessary, please explain why not.

**RESPONSE:** There have been adjustments to the 2019 Capital Budget as follows:

1. Additional capital project with estimated cost of \$990,000 of pole replacements with cost recovery as a result of Telus Inc. undertaking a fiber upgrade project in the Nelson Hydro Service area. This is an unplanned project driven by a third party. Nelson Hydro will have some contribution to the costs to recognize the value of asset replacement as per the joint use agreement with Telus.
2. Deferring the Power Plant concrete repairs (\$698,000) from 2019 to 2020 due to vacancies. This deferral does not impact Rural rates.

There is no impact to the operating budgets.

Generally, Nelson Hydro does not make budget revisions, but rather adjusts its year end forecasts with reviews at Q2 and Q3. Therefore, Nelson Hydro is not proposing to change the application as filed.

- 3.2 What is the significance of noting the effective rate increase of approximately 2.03 percent for the 2019 calendar year? Does this mean if Nelson Hydro applied for a rate increase to take effect on January 1, 2019, then the rate increase would have been 2.03 percent? Please clarify.

**RESPONSE:** Based on information provided in the application, if the rates were increase effective January 1, 2019 the rate increase would have been 2.03%. As indicated in the application, Nelson Hydro is seeking a recovery of shortfall, as shown on page 8 of the application, for the 2019 calendar year which would yield a rate increase of 2.94% effective April 1, 2019. The end impact to the customers and for Nelson Hydro would be the same, i.e., Nelson Hydro would collect the same amount if the rates were increased at 2.03% effective January 1, 2019 as 2.94% increase effective April 1, 2019.

- 3.3 Please explain why Nelson Hydro elected to gross up the 2.03 percent to 2.94 percent. Is the 2.94 percent calculated based on a 12-month 2019 calendar year budget from January 1, 2019 to December 31, 2019 to be recovered over a 9-month period from April 1, 2019 to December 31, 2019? Please clarify.

- 3.3.1 The directive provided in Order G-119-17 appears to be intended to avoid retroactive ratemaking (i.e. public utilities seeking approval of rate changes subsequent to filing an application). Please explain why Nelson Hydro appears to have filed its Application three months later than previously directed.

**RESPONSE:** As indicated in the previous response, Nelson Hydro is seeking a recovery of \$145,262 shortfall for the 2019 calendar year. This can be accomplished through a rate increase of 2.94% effective April 1, 2019 which is calculated off revenues for nine months from April 1, 2019 through December 31, 2019.

On November 30th, 2018 Nelson Hydro filed notice of future filing of the COSA study that had just been completed but needed to be presented to Nelson City Council first and that we expected a late December submission. The COSA was filed with BCUC on December 21, 2018.

In this request to the Commission, Nelson Hydro had expressed that a new council had just been sworn in, and in order to allow time to familiarize them with the COSA, rate application and regulatory process, that we would be filing our rate application in January 2019.

On January 22, 2019 further discussions took place with the Commission surrounding the upcoming scheduling of Nelson Hydro's Open House (February 7, 2019) with regards to the rate increase in which several weeks advanced notice was required. The Open House must be completed prior to filing, as we must also report back to our Council on public feedback, recommend viable options and have council select the final direction for the Utility prior to the submission to the Commission.

We had intended to have our filing submitted by March 1, 2019, however, after further discussions with the Commission, more information and clarification of the application was required and thus the final submission was sent on March 8, 2019.

There were also several staffing changes and projects during this time that required the attention of the General Manager and staff responsible for filing the application to be overburdened.

Nelson Hydro kept communications with the Commission regarding the above noted circumstances.

Nelson Hydro will attempt to file future applications for 30 days prior January 1<sup>st</sup> as indicated in BCUC Order G-119-17.

## **B. BUDGETING AND FINANCIAL ANALYSIS**

### **4.0 Reference: BUDGETING AND FINANCIAL ANALYSIS Exhibit B-1, p. 8, Appendix A, Appendix B 2019 Rural rate change calculation (December 2018)**

On page 8 of the Application, Nelson Hydro provides the following 2019 Rural rate change calculation table:

**2019 Rural Rate Change Calculation (December 2018)**

<b>Debt Serv. Total</b>	<b>\$169,660</b>
<b>Op Exp. Total</b>	<b>\$2,293,016</b>
<b>Power Purchase Total</b>	<b>\$5,032,846</b>
Transfers	
Transfer - Dividend Pymt.	\$0
Transfer - Major Capital Reserve	\$0
Transfer - Water License Reserve	\$0
Contribution to Community Complex	\$0
<b>Transfers Total</b>	<b>\$0</b>
<b>Expense Total</b>	<b>\$7,495,462</b>
<b>Revenue - Other Total</b>	<b>-\$159,909</b>
<b>Revenue - Rates Fcst. (pre rate change)</b>	<b>-\$7,171,071</b>
<b>Revenue Total</b>	<b>-\$7,330,980</b>
<b>2018 Dividend Returned</b>	<b>-\$19,220</b>
<b>Grand Total Shortfall (Surplus)</b>	<b>\$145,262</b>
<b>Revenue from Rates Rqd.</b>	<b>-\$7,316,333</b>
<b>Revenue from Rates Change Rqd.</b>	<b>2.03%</b>
<b>Rate Change Rqd. (Apr 01)</b>	<b>2.94%</b>

- 4.1 Please provide a live spreadsheet of the 2019 Rural Rate Change Calculation (December 2018) table. Show all applicable calculations and reference each line item by mapping them to the supporting schedules provided in Appendix A and B.

**RESPONSE:** Please see BCUC IR 1 – IR 4.1 Attachment 1. Please also see response to 4.2 below that compares information in application page 8, Appendix A and Appendix B. Based on information filed in Appendix B, the required rate increase is 3.0% compared to 2.94% provided in the application. Nelson Hydro is not proposing to change requested rate increase of 2.94%. Nelson Hydro also notes that the calculated shortfall was \$145,322 in the BCUC IR 1 – IR 4.1 Attachment 1 compared to \$145,262 shown in table on page 8 of the application, due to an error in the application. However, this does not impact the calculated rate increase of 2.94%.

- 4.2 It appears that some of the line items in the “2019 Rural Rate Change Calculation (December 2018)” table do not align with the Nelson Hydro Operating Income schedule in Appendix A and Rural Utility – Operating Budget schedule in Appendix B. For example:

<b>Line item for Rural 2019</b>	<b>Application, p. 8</b>	<b>Appendix A in \$000</b>	<b>Appendix B</b>
Debt service total	\$169,660	\$171.3	\$171,382
Operating expense total	\$2,293,016	\$2,279.6	\$2,279,534
Power purchase total	\$5,032,846	\$5,032.1	\$5,032,143
Expense total	\$7,495,462	\$7,482.9	\$7,483,058
Revenue total	-\$7,330,980	\$7,463.8	-\$7,483,058

Please reconcile these differences and explain why the table on page 8 of the Application does not appear to align with the supporting schedules in Appendix A and B.

**RESPONSE:** The application draft was prepared in December 2018 and used for City Council meeting, while Appendix A and B were prepared for filing in March 2019. Although, both application and appendices use the same budget there were some adjustments to the allocation factors that resulted in overall reduction in costs allocated to the Rural service area [the Debt service cost was impacted by the Capital Assets Rural / Urban mix as total debt allocated to Urban and Rural based on their share of NBV of capital assets; some minor adjustments to the operating cost allocations]. Please see response to 4.1 for the impact of updated information in Appendix B.

The difference in Appendix A and Appendix B is the \$19,220 dividend adjustment from the 2018 application. As indicated in response to 9.1, Appendix B omitted to show the amount of \$19,220 dividend adjustment from the 2018 application.

**5.0 Reference: BUDGETING AND FINANCIAL ANALYSIS  
Exhibit B-1, Appendix B  
Operating Expense – 2018 budget vs. actuals**

In Appendix B, Nelson Hydro compares operating expense amounts for the years 2015 to 2019.

5.1 Please specify the months of actual and forecast in the “2018 Rural Act. (Prelim)” of Appendix B.

**RESPONSE:** The column “2018 Rural Act. (Prelim)” reflects preliminary actuals for Q1 through Q3, and not finalized preliminary actual numbers for Q4 of 2018. The preliminary actuals for 2018 would be impacted by year end adjustments that were still pending. Please see response to 5.2 below.

5.2 Have the preliminary 2018 actuals been finalized? If so, please provide the updated 2018 actual amounts for the entire year. If not, please advise when the preliminary 2018 amounts will be finalized.

**RESPONSE:** Please see BCUC IR 1 - IR 5.2 Attachment for City of Nelson audited financial statements for 2018. Considering that the final numbers for 2018 just became available to Nelson Hydro as well as already booked vacancies/schedules for staff Nelson Hydro will be able to file Appendix B with 2018 actuals included by end of May or first week of June.

5.3 Please clarify the start and end dates for the “2019 Rural Bud” column. Does it cover the calendar year from January 1, 2019 to December 31, 2019 fiscal year from April 1, 2019 to March 31, 2020, or some other time period?

5.3.1 Please explain the same for the “2018 Rural Bud.”

**RESPONSE:** Yes, the Nelson Hydro fiscal covers the calendar year from January 1, 2019 to December 31, 2019. This applies equally to the Rural and Urban portions.

All other years are on the same basis, i.e. reflects calendar year from January 1<sup>st</sup> to December 31<sup>st</sup>.

5.4 Please explain why the Distribution line item is budgeted as a \$134,398 increase over the 2018 budget, when 2018 actuals were \$321,869 under budget.

**RESPONSE:** As shown in Appendix B of the application the distributions expenses for the 2018 preliminary actuals are \$187,471 lower compared to the 2018 budget, however, the review shows that the 2018 final numbers could be slightly higher than the 2018 budget. The budget for 2019 was largely impacted by an increase of \$100,000 is for vegetation management costs. In addition to this, as Appendix B shows 2019 budget is within the range of average for 2015-2017 actuals [\$1,060,920 2019 budget compared to \$1,088,000 as the average for 2015-2017 years].

5.5 Please explain why the Electrical Administration line item is budgeted as a \$24,113 increase over the 2018 budget, or 5.48 percent increase.

**RESPONSE:** Electrical Administration cost category consists of 23 sub cost categories.

The largest single change was an overall (utility wide) increase of \$50,000 for increased support in the management group with \$28,679 (or 41%) allocated to Rural service area. The remaining sub categories saw a decrease of about \$4,566.

5.6 Please explain why the Electrical Billing and Collections line item is budgeted as a \$9,373 increase over the 2018 budget, when 2018 actuals were \$6,653 under budget.

**RESPONSE:** The increase reflects mostly forecast increase in computer service costs of \$17,300 (for the whole utility) where the Rural service area share is about 41% or increase of \$7,093 for the Rural service area.

Also, the more up to date information for 2018, which is still being finalized, shows that 2018 year actuals would be about 0.30% or \$1,000 under budget.

5.7 Please explain why the Electrical Supply line item is budgeted as a \$6,210 increase over the 2018 budget, or a 11.14 percent increase.

**RESPONSE:** The larger portion of the increase is due to a one-time cost of \$26,000 for

contracted Electrical Maintenance work where Rural service area share \$3,172 (about 12%). It should also be noted although the 2019 budget for Rural is \$6,210 (or 11.14%) above 2018 budget, 2019 budget is \$1,494 2.35% lower compared to the 2018 preliminary actuals.

5.8 Please explain why the Substations line item is budgeted as a \$4,862 increase over the 2018 budget, or a 18.84 percent increase.

**RESPONSE:** The larger portion of the costs increases for substation cost category reflect Mill St Substation contracts increase by \$13,000 (total for Nelson Hydro) and Granit Terminal Substation contracts decrease by \$7,830 (total for Nelson Hydro) to better reflect anticipated costs. Rural service area shares about 40% of these costs.

All the other costs have small adjustments to budget amounts.

**6.0 Reference: BUDGETING AND FINANCIAL ANALYSIS  
Exhibit B-1, Appendix A  
Amortization expense**

In Appendix A of the Application, Nelson Hydro shows the amortization expense line item for 2015, 2016, 2017, 2018 Preliminary, and 2019 Forecast. The figures contained in this schedule show a split between rural and urban.

Specifically, Nelson Hydro states that amortization expense is \$379,100. In footnote 3, Nelson Hydro states: "For regulatory purposes the table shows amortization expense for Rural service area to recover the capital investments [Urban portion includes capital reserve transfers]."

6.1 Please explain how Nelson Hydro has calculated its amortization expense. Please show calculations. How does the amortization expense relate to Nelson Hydro's rate base, if at all?

**RESPONSE:** As indicated in the application (page 10, and Appendix A) the information in Appendix A, including amortization expense, is provided for information purposes rather than a rationale for the 2019 rate change. The 2019 rate change is forecast to recover expected operating costs for 2019, including cost of debt. The amortization expense forecast for 2019 or return on equity illustrated in Appendix A are not included in the required rate change for 2019.

The amortization expense forecast of \$379,100 as shown in Appendix A is calculated based on preliminary actual amortization expenses for 2018 plus amortization expense forecast for the capital additions for 2019. Table below illustrates calculation of the amortization expense for 2019 for Rural service area.

		\$000
1	Plant in service closing balance for 2018	\$18,444.8
2	Preliminary amortization expense for 2018	\$348.3
3=2/1	Calculated average amortization rate	1.9%
4	Capital additions forecast for 2019	\$1,631.0
5=1+4	Plant in service closing balance for 2019	\$20,075.8
6=5*3	Amortization expense forecast for 2019	\$379.1

6.2 Please explain whether the amortization expense have any impact on the calculation of the proposed 2019 rural rate change of 2.94 percent. If applicable, show the calculations.

**RESPONSE:** No. As indicated in the response above the information in Appendix A, including amortization expense, is provided for information purposes rather than a rationale for the 2019 rate change. The 2019 rate change is forecast to recover expected operating costs for 2019, including cost of debt. The amortization expense forecast for 2019 is not included in the required rate change for 2019.

**7.0 Reference: BUDGETING AND FINANCIAL ANALYSIS  
Exhibit B-2, Rural Utility Operating Budget, p. 2  
Supplementary information – discretionary spend**

On page 2 of the Supplemental information, Nelson Hydro states:

A reduced operating expense to accommodate the revenue shortfall was considered, but the majority of the operating expenses are not discretionary – the budget is really a forecast of the expenses. For example; storm damage repairs, insurance, power purchase and debt servicing costs will not change regardless of what budget may be set for them.

7.1 Please explain what kind of expenses the “Share of General Administration”, “Electrical Administration”, and “Operation” line items consist of. Please explain why these expenses are not discretionary.

**RESPONSE:** General Administration includes share of City administration departments such as Finance, Corporate Services, Administrative supporting.

As indicated by Nelson Hydro the majority of the operating expenses are not discretionary because these services are necessary for Nelson Hydro and would need to be obtained from third parties if not shared from the City of Nelson, therefore, Nelson Hydro considers those services as legitimate services provided to Nelson Hydro.

Operation cost category includes costs such as advertising, telephone, easements/permits, labour and equipment costs for standby line crew, Technical Services (customer service for new connections), tool repairs, etc.. These are services of an electric utility that are not directly

associated with the power lines, however, are the support services to help customer receive power.

Electrical administration cost category includes costs for general administration purposes such as office supplies, safety meeting, trades/professional staining, consulting costs, labour costs for electrical administration except staff.

**8.0 Reference: BUDGETING AND FINANCIAL ANALYSIS  
Exhibit B-1, Section 12, p. 9 and Appendix B  
Commercial Revenues**

On page 9 of the Application, Nelson Hydro states:

We had several commercial closures in the Rural area in 2018, of which we will see the full impact in the year 2019. Pacific Insight Electronics scaled back operations in 2018 and will be permanently closed in early 2019. They were our largest Rural commercial customer. Can-Filters also closed its' doors after being in operation for close to 30 years.

In appendix B, Rural Commercial revenues for the 2019 Rural budget are 2.6 percent higher than the 2018 Rural budget.

8.1 Please provide the amount of commercial revenue (in kWh and dollars) attributable to Pacific Insight Electronics and Can-Filters for each of the years 2015–2018.

**RESPONSE:** Because this involves non aggregated customer data, please see confidential attachment to this response [will be provided as a separate confidential filing].

8.2 Please explain why the 2019 Rural budget has increased over the 2018 budget, despite the closures.

**RESPONSE:** The basic fixed costs (e.g. maintaining power lines, outage response to storms, labour, billing, and other fixed costs) will have no change with the closure of two facilities. Only the variable costs of power purchase will reduce with the closures which is reflected in the total cost based on load forecast. Inflationary costs also continue to pressure the fixed costs.

Considering the good conditions of those buildings, Nelson Hydro expects that both of these facilities will return to operation with different tenants in the near future. However, it is hard for Nelson Hydro to predict for how long the buildings will remain unused and whether the new use will be more or less energy intense than the prior use.

**9.0 Reference: BUDGETING AND FINANCIAL ANALYSIS  
Exhibit B-2, p. 2 and Appendix B  
Supplemental information – revenue (rates)**

The original 2019 Rural budget in Appendix B of the Supplemental information shows a “Grand-Total” of \$19,220.

Appendix B: BCUC file 60242  
Batch 59980 Rural Utility - Operating Budget NELSON HYDRO 2019 RURAL RATE APPLICATION  
EXHIBITB-2-1

Function Description	Application						Supplementary Filing			
	2015 Rural Act. (\$)	2016 Rural Act. (\$)	2017 Rural Act. (\$)	2018 Rural Act. (Prelim) (\$)	2018 Rural Bud. (\$)	2019 Rural Bud. (\$)	2018 - 2019 (\$)	2018 - 2019 (%)	2019 No R.C. (\$)	2019 No R.C. Budget
Grand Total	\$479,999	-\$387,287	-\$225,292	-\$703,561	\$122,590	\$19,220			\$167,490	\$148,270

Appendix B of the application shows a “Grand-Total” of \$0 for the original 2019 Rural budget.

Appendix B: Rural Utility - Operating Budget

Function Description	2015 Rural Act.	2016 Rural Act.	2017 Rural Act.	2018 Rural Act. (Prelim)	2018 Rural Bud.	2019 Rural Bud.	2018 - 2019 (\$)	2018 - 2019 (%)
Grand Total	\$479,999	-\$387,287	-\$225,292	-\$703,561	\$122,590	\$0		

The change seems to be the result of changes to the Commercial and Residential revenues.

On page 2 of the supplementary information, Nelson Hydro states:

In the Rural Utility Operating budget this is shown as an increase in subsidy of the Rural Utility from \$19,220 to \$167,490...

Thus, the adjusted budget shows an increase in subsidy to the rural utility in the event of a revenue shortfall.”

Nelson Hydro states that the updated 2019 operating budget excluding the 2.94 percent rate increase is shown to the column added to the right and is titled “Supplemental Filing.”

9.1 Please explain why the 2019 Rural budget shown above has changed from the original filing, when the only changes highlighted by Nelson Hydro are the Supplemental Filing columns in Appendix B of the supplemental information? Is Nelson Hydro presenting the operating budget to show its calculated revenue shortfall of \$167,490 before the \$19,220 disallowed dividend payment adjustment?

**RESPONSE:** The Operating Budget filed in Appendix B of the original application omitted to show the amount of \$19,220 disallowed by BCUC in 2018 application. The supplementary filing shows this amount.

In the supplementary filing Appendix B operating budget the column showing 2019 no R.C. the grand total shortfall of \$167,490 includes the \$19,220 disallowed amount from the 2018 application.

- 9.2 Regarding Nelson Hydro’s submission on the “subsidy to the rural utility”, please clarify who is paying for the “subsidy to the rural utility”. Please elaborate why Nelson Hydro views that the proposed rate increase, which recovers the \$148,270 shortfall, is a subsidy of the rural utility.

**RESPONSE:**

Nelson Hydro clarifies that the statement in Nelson Hydro’s supplementary information was included in response to the request from the Commission to provide numbers with no rate increase in 2019. This results a shortfall of \$148,270 that would be a “subsidy” from Urban customers to the Rural service area as the expenses for Rural service area would not recovered from rural rates creating requirement shareholder or Urban customers subsidize Rural service area customers. In this case the shareholder and as the result Urban service area customers would be at risk for that shortfall.

**C. ALLOCATION BETWEEN RURAL AND URBAN**

- 10.0 Reference: ALLOCATION BETWEEN RURAL AND URBAN  
Exhibit B-1, p. 3  
Urban and rural rates**

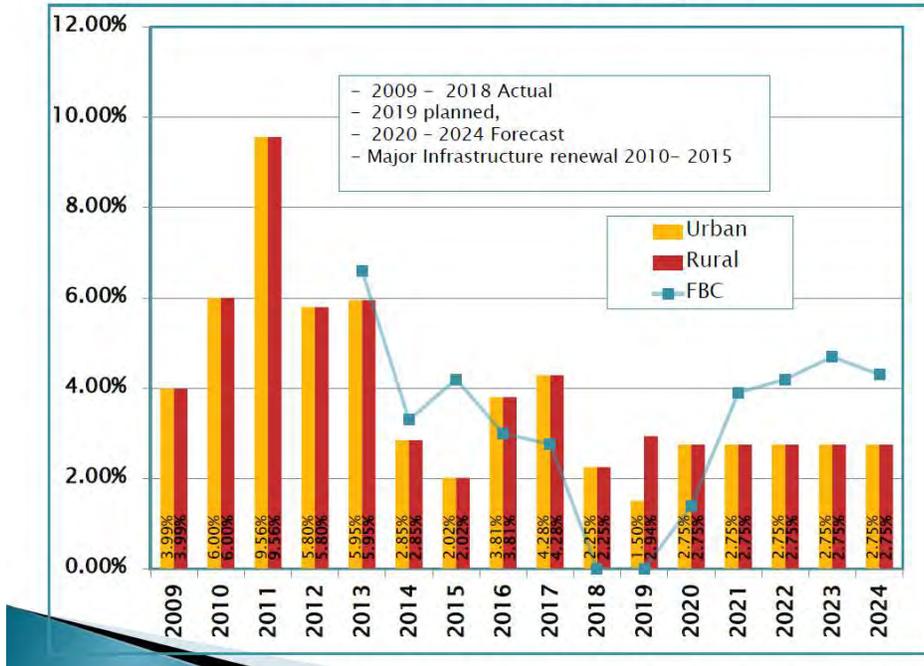
On page 3 of the Application, Nelson Hydro shows the general rate changes for Rural customers. In the January 7, 2019 Nelson Hydro staff memo included in the Application, the recommendation is a 1.5 percent general rate increase in Nelson Hydro electrical rates for all Urban classes and a 2.94 percent general rate increase for all Rural classes effective April 1, 2019.

In its Open House presentation dated February 7, 2019<sup>2</sup>, on slide 14, Nelson Hydro states, “Prior to 1996 Rural and Urban rates were different, and 2019 they will be different again.” On slide 24, Nelson Hydro shows the general rate changes for both urban and rural customers.

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<sup>2</sup> Nelson Hydro, Open House (February 2019), retrieved from <https://www.nelson.ca/DocumentCenter/View/3045/2019-Hydro-Open-House-Presentation->.

# General Rate Changes



On page 10 of the Application, Nelson Hydro discusses the results of the COSA [Cost of Service Analysis] study and states:

The COSA study results show the potential for rate balancing which is outside the scope of this general revenue requirement. The COSA results are provided here for information purposes rather than a rationale for the 2019 rate change. The 2019 rate change is forecast to recover expected operating costs for 2019, including cost of debt.

10.1 As summarized in the preamble, Nelson Hydro’s rate increases have been identical for urban and rural customers from 1996 to 2018, and forecast to be the same from 2020 to 2024. Please explain and show in detail why there is a rate differential between rural and urban customers specifically in 2019.

**RESPONSE:** The information beyond 2019 in the figure provided in the preamble are intended to show rate predictability going forward based on available information to Nelson Hydro at the time of preparing application on future expenses. Specifically, page 2 of application notes the following:

General rate increase pressure within Nelson Hydro is forecast to be flat. Large infrastructure renewal is mostly complete in the utility. In recent years Generator rewinds, Substation construction and voltage conversion projects have driven the need for capital spending above sustaining levels. Going forward infrastructure spending is expected to be on average at sustaining levels.

Nelson Hydro has little debt and no deferral accounts to create future rate pressure.

Nelson Hydro forecasts the general rate pressure to be about 2.75% going forward.

The application for 2019 Rural rates is seeking approval of a rate increase based on forecast revenues and allocated expenses for 2019 which results in 2.94% rate increase effective April 1, 2019. This is based on recovery of operating costs and cost of debt without inclusion of amortization expense (or transfer to capital reserve) or return on equity as part of revenue requirement. Absent rate adjustments for cost of capital recovery from Rural service area Urban and Rural customers would face similar rate pressures. As indicated in the application, the matter of a fair return to the shareholder investments to the Rural service area will be part of a separate application from this general rate change.

10.2 Please clarify whether Nelson Hydro has included any COSA findings or components in the calculation of the 2019 rural rate change.

10.2.1 If the proposed 2019 rural rate change contains some implications from the COSA study, please comment to what extent this proceeding should also examine the COSA study filed. Does Nelson Hydro have any other specific requests for BCUC approval or acceptance? Reference specific section(s) of the *Utilities Commission Act* for which the approval/acceptance is being sought under.

**RESPONSE:** As indicated on page 10 of the application, the COSA results, which is the subject of a separate application, are provided in the 2019 Rural Rate application for information purposes rather than a rationale for the 2019 rate change. The 2019 rate change is forecast to recover allocated forecast operating costs for 2019 for the Rural service area, including cost of debt.

Nelson Hydro also noted that it has started a review of rate design options with the City of Nelson Council, and began a public consultation process. The expectation is that a fair rate of return will be established that will result in rate re-design of at least some of the Nelson Hydro customer classes.

**11.0 Reference: ALLOCATION BETWEEN RURAL AND URBAN  
Exhibit B-1, Appendix B; Exhibit B-2, p. 3  
Operating budget – rural vs. whole utility**

In Appendix B of the Application, Nelson Hydro includes two schedules: (i) “Rural Utility – Operating Budget” and (ii) “Utility – Operating Budget.” However, in the 2017 and 2018 Nelson Hydro rate applications, Nelson Hydro appears to have provided the operating budget for the whole utility only.<sup>3</sup>

In Appendix B of the supplementary filing, Nelson Hydro provided the 2019 budget and excluded the rural utility rate change, as highlighted in yellow, for both the rural utility and for the whole utility schedules. However, the urban revenue line items appear to include the 2019 urban rate increase.

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<sup>3</sup> [https://www.bcuc.com/Documents/Proceedings/2018/DOC\\_50586\\_B-1\\_Nelson-Hydro-2018-Rate-Application.pdf](https://www.bcuc.com/Documents/Proceedings/2018/DOC_50586_B-1_Nelson-Hydro-2018-Rate-Application.pdf); [https://www.bcuc.com/Documents/Proceedings/2017/DOC\\_48754\\_B-1\\_NelsonHydro\\_2017-Rate-Application.pdf](https://www.bcuc.com/Documents/Proceedings/2017/DOC_48754_B-1_NelsonHydro_2017-Rate-Application.pdf)

In Appendix A of the Application, Nelson Hydro provides a schedule showing its operating income for 2015 through 2019. The figures contained in the schedule are split between rural and urban.

On page 3 of the supplementary information, Nelson Hydro provides a revised customer mix table.

11.1 Please explain in detail the methodology used to allocate expenses and revenues to the rural utility in the 2019 budget as shown in Appendix B of the Application. If the allocation methodology differs depending on line items, please provide an explanation for each individual line item.

**RESPONSE:** The allocation process involved review of each project (or work orders) to determine allocation method to be used for each project. Nelson Hydro has developed allocation factors as illustrated in table below.

Cost Allocation Factors	Rural	Urban
Rural	100.00%	0.00%
Urban	0.00%	100.00%
Customer	40.97%	59.03%
Energy Delivery	40.00%	60.00%
Demand Delivery	40.00%	60.00%
Asset Value	34.32%	65.68%
Energy Production	12.20%	87.80%
Energy Purchase	82.30%	17.70%
Demand Purchase	67.70%	32.30%
POD Purchase	42.30%	57.70%
Community Solar Garden	32.08%	67.92%
Linear	50.00%	50.00%

- “Rural” allocation factors are used for the costs that are 100% Rural (for example, the cost for substations that serve the Rural customers, metering expenses for Rural customers, distribution operation costs for the distribution system that serve Rural customers)
- “Urban” allocation factors are used for the costs that are 100% Urban (for example, District Heating Operations, the cost for substations that serve the Urban customers, metering expenses for Urban customers, distribution operation costs for the distribution system that serve Urban customers).
- “Customer” allocation factors are estimated based on number of customers for Urban and Rural service areas. This allocation factor is used allocation of the costs such as EcoSave, Electrical Billing & Collections, some of the costs under Operations cost category; as well as for allocation of revenues under Capital - System Upgrade.
- “Energy Delivery” allocation factors are estimated based on share of Urban and Rural service areas in total sales. This allocation factor is used allocation of the costs such as Mill Street and Granite Term substation costs, some of the costs under Operations cost category and Electrical Administration category.
- “Demand Delivery” allocation factors are estimated based on share of Urban and Rural

service areas in total load demand. This allocation factor is used allocation of the costs under Electrical Transmission cost category.

- “Asset Value” allocation factors are estimated based on share of Urban and Rural service areas in total cost of assets. This allocation factor is used allocation some of the costs under Electrical Administration category.
- “Energy Production” allocation factors are estimated based on share of Urban and Rural service areas in total energy production from Nelson Hydro hydraulic generation. This allocation factor is used allocation of the costs of Bonnington substation and costs under Electrical Supply cost category.
- “Energy Purchase”, “Demand Purchase” and “POD Purchase” allocation factors are estimated based on share of Urban and Rural service areas in energy and demand purchases, as well as customer charge from Fortis BC. The Urban customers share about 17.7% of energy portion of power purchase costs, while Rural customers share the remaining 82.3%. The allocation of the demand portion of purchased power costs are prepared based on feeder loading study conducted by Nelson Hydro that shows based on 2014-2017 actual peak numbers the Urban customers share about 32.3% of demand portion of power purchase costs, while Rural customers share the remaining 67.7%. These allocation costs are used for allocation of power purchase costs.
- “Community Solar Garden” allocation factors are used for allocation ongoing operating and maintenance costs for Community Solar Garden. Urban service area shares about 67.92%, while Rural service area about 32.08% based on 163 Urban and 77 Rural panels.
- “Linear” allocation factors are used for allocation some of the common costs and other revenues, such as pole share revenues, pole tests, some general distribution upgrade costs. Total costs allocated using this allocation factor is about \$0.1 million.

11.1.1 [Please also explain in the detail whether the same allocation methodology was applied to the schedule in Appendix A of the Application.](#)

**RESPONSE:** The same allocation method and factors are used for summary table provided in Appendix A [Table titled “Nelson Hydro Operating Income for 2015 through 2019, \$000”]. Please also see response to 4.2 above.

For the cost of service study purposes, the costs were allocated to Urban, Rural and common costs as detailed in section 5.1 of the Cost of Service Study report. The costs that are 100% Urban are allocated to Urban, 100% rural allocated to Rural and costs that cannot be fully allocated to either Urban or Rural were allocated as common costs, and are thus broken out to all customers based on usage through a separate cost of service study. The COS is prepared separately for each cost group indicated above and the results are combined to summarize COS outcomes. The allocation of the revenues are the same in the cost of service study report (as amended) as in the summary table “Nelson Hydro Operating Income for 2015 through 2019, \$000” in Appendix A. However, the allocation of costs are slightly different in cost of service study due to approach that was employed (Urban, Rural and common). However, the variances are not significant. For example, table “Nelson Hydro Operating Income for 2015 through 2019, \$000” in Appendix A shows total O&M expenses allocated to Rural area at \$2.145 million compared to \$2.159 million in Table 5 of COSA Report Amendment [for difference of \$0.014 million or 0.6%].

- 11.1.2 Instead of developing and maintaining a detailed allocation methodology between rural and urban customers, has Nelson Hydro considered other cost-effective methods of allocations, or whether such allocation tracking is needed at all? Please discuss.

**RESPONSE:** The accounting for Nelson Hydro provides a convenient way for a portion of the O&M expenses to be directly charged to Urban or Rural. For example, the labour costs related to the City of Nelson distribution system are recorded under a separate account “Distribution-City”, while the labour costs related to distribution systems in rural areas are recorded under account “Distribution-S Shore Labour” and/or “Distribution-N Shore Labour”. These types of expenses can be directly allocated to Urban or Rural. Other costs that cannot be 100% allocated either to Urban or Rural are allocated based on allocation factors noted in response to 11.1.

As indicated above, the cost of service study applied slightly different approach where the costs that are 100% Urban are allocated to Urban, 100% rural allocated to Rural and costs that cannot be fully allocated to either Urban or Rural were allocated as common costs, and are thus broken out to all customers based on usage through a separate cost of service study. However, this requires preparing a cost of service study in each rate application. In addition to this the variances in allocated costs in COSA method and using allocations factors as noted in response to 11.1 results in very close outcomes [please see response to 11.1.1].

Nelson Hydro is not aware any other cost effective cost allocations.

- 11.2 Please explain in detail how Nelson Hydro allocated actual expenses and revenues to the rural utility from 2015 through 2018, as shown in Appendix B of the Application.

**RESPONSE:** The cost allocations for 2015 through 2018 are provided for information purposes using the same allocation method and allocation factors as provided in response to 11.1.

- 11.3 With respect to Appendix B of the supplementary filing, please restate the two operating budgets to exclude the rate changes to not only rural customers, but also urban customers.

- 11.3.1 Similarly, with respect to the customer mix table on page 3 for comparability, please restate the table with the “2019 forecast with Current Rates” line item to also exclude the urban customer rate change.

**RESPONSE:** Please see BCUC IR 1 - IR 11.3 Attachment.

- 11.4 As an alternative scenario, please calculate the rate increase that would have been required for the whole utility similar to the approach undertaken in 2017 and 2018 Nelson Hydro rate applications. Show the calculations and reference the financial schedules as necessary.

**RESPONSE:** Please see BCUC IR 1 – IR 11.4 Attachment 1.

As indicated in the attachment, it is prepared based on information used for table on Page 8 of the application that was developed in December 2018 [consistent with the data that was used for rate setting with City of Nelson Council]. Therefore, the numbers are slightly different than Appendix B.

The rate calculation for Urban service area was -0.40%, however, the City Council agreed and decided to implement a rate smoothing option by approving the 2019 rate change 1.5% so potential future rate increases are smoothed.

11.4.1 [If the BCUC determines that the 2019 rural rate should be approved under the same rate setting approach consistent with past rate applications \(i.e. 2017 and 2018\), please discuss how this may be implemented.](#)

**RESPONSE:** In the previous applications the BCUC reviewed total costs for Nelson Hydro and determined the required rate increase for all customers to collect the revenue shortfall for whole utility.

Continuation of the across-the-board increase for Urban and Rural customers based on total costs and total revenues will result in higher revenue to cost coverage ratio for Urban customers, and lower for Rural customers, especially for Rural residential customers.

As set out in the application, starting in 2019 Nelson Hydro will apply for a rate increase for Rural service area based on allocated cost and revenue forecasts for Rural area. Considering the Urban portion rates are set by City Council and outside of the BCUC review, Nelson Hydro considers that approving rates for Rural service area as applied in the application is appropriate.

Urban customers rates are set as final for 2019, whereas, Rural customer rates are approved on interim basis effective April 1, 2019. Any determination by the BCUC will be adjusted through Rural service area rates.

**12.0 Reference:** [ALLOCATION BETWEEN RURAL AND URBAN Exhibit B-1, p. 9; Exhibit B-2-1, Appendix B; Nelson Hydro 2018 Rate Application, Order G-124-18 reasons, p. 8 Capital reserve fund](#)

In its 2018 rate application, Nelson Hydro indicated that it keeps a capital reserve fund between \$5 and \$10 million for capital expenditures. On page 8 of the reasons under Order G-124-18, the BCUC acknowledged the capital reserve fund practice by Nelson Hydro and stated that:<sup>4</sup>

[... the Panel encourages Nelson Hydro to prioritize the establishment of clear guidelines around the appropriate minimum and maximum capital reserve](#)

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<sup>4</sup> Order G-124-18, reasons for decision, p. 8



As a utility, Nelson Hydro will continue to address any capital investments requirements for the Rural service area. When the capital reserve policy and ROE approach for the Rural service area are completed, Nelson Hydro will provide a proposal to the BCUC regarding recovery of capital investments to the Rural service area.

12.2 Please clarify what Nelson Hydro meant by “the Rural utility does not contribute to the Capital Reserve” but line item 31 “Transfer – Major Capital Resv” shows -\$148,269 which appear to be the same amount as the utility’s revenue shortfall attributed to the rural customers.

**RESPONSE:** The adjustment of -\$148,269 was an offsetting entry in the transfer to major capital reserve if no rate increase is approved, as the revenue shortfall from the Rural service area would reduce transfers or net income to the shareholder (City of Nelson) and as the result would reduce contributions to the capital reserve. This was done for illustration of the impact of no rate increase and consistent with the BCUC direction in Order G-119-17 where the BCUC directed Nelson Hydro “to apply all future variances in budget versus actual net operating income, as these variances pertain to non-municipal ratepayers, to the Capital Reserve Fund only unless otherwise specifically approved by the Commission.”

12.3 It does not appear that Nelson Hydro in the Application has not provided an update on the development of the guidelines relating to capital reserves as requested by the BCUC in its 2018 decision. Please provide these guidelines.

**RESPONSE:**

As indicated in response to 3.3.1 above, Nelson Hydro had the retirement of it’s Line Manager at the end of 2018, coupled with the resignation of it’s Operations Manager in February, 2019 which represents about 60% of the management group and 100% of the front line managers. Nelson Hydro also had a key project of the marine cable installation that could not be delayed due to timing tied to lake water levels. Therefore, Nelson Hydro was not able to keep all strategic objectives moving forward.

Nelson Hydro will provide update to the BCUC when the guidelines related to capital reserves are developed.

**D. FAIR AND REASONABLE RETURN**

**13.0 Reference: FAIR AND REASONABLE RETURN  
Exhibit B-1, p. 4, Appendix A  
Fair return**

On page 4 of the Application, Nelson Hydro states:

Under the proposed rates the shareholder, city of Nelson, would not fully recover a return provision of electric service in the Rural service area. The proposed rates are forecast to recover operating costs and cost of debt. The

matter of a fair return to the shareholder is that of a separate application from this general rate change.

In Appendix A of the Application, Nelson Hydro provides a schedule showing its operating income for 2015 through 2019. The figures contained in the schedule are split between rural and urban.

	2015		2016		2017		2018 Preliminary		2019 Forecast	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Dividend/ROE/Transfers										
Urban Dividend/ROE		2,600.0		2,860.0		2,700.0		2,754.0		2,836.0
Major Capital Reserve		1,419.4		3,152.0		3,892.3		2,486.3		2,898.0
Water License Reserve		551.7		568.9		658.3		658.3		658.0
Community Complex Contributions		90.0		90.0		90.0		90.0		90.0
Target Rural ROE to get 11.99%/12.45% <sup>2</sup>	1,137.8		1,283.9		1,344.1		1,490.1		1,642.6	
Amortization Expense <sup>3</sup>	287.5		297.9		320.6		348.3		379.1	
Remove Debt Principal Payment <sup>4</sup>	-86.4		-86.4		-86.4		-86.4		-86.4	
<b>Total</b>	<b>1,338.8</b>	<b>4,661.1</b>	<b>1,495.4</b>	<b>6,670.9</b>	<b>1,578.3</b>	<b>7,340.5</b>	<b>1,752.0</b>	<b>5,988.6</b>	<b>1,935.3</b>	<b>6,482.0</b>
<b>Operation Income after ROE and Transfers</b>	<b>-1,818.7</b>	<b>452.8</b>	<b>-1,108.1</b>	<b>-396.1</b>	<b>-1,353.0</b>	<b>-475.5</b>	<b>-1,048.5</b>	<b>1,002.2</b>	<b>-1,954.4</b>	<b>-1.4</b>

13.1 Please clarify why Nelson Hydro view that the proposed rate change “would not fully recover a return provision of electric service in the Rural service area” when Nelson Hydro may include a rural dividend payment transfer to its shareholder, consistent with Nelson Hydro’s existing practice.

**RESPONSE:** As indicated in response to 12.1, Nelson Hydro is working towards establishing an ROE approach for the Rural service area and as well as working to establish a capital reserve policy as directed by the BCUC. The 2019 Rural Rate application is seeking recovery of allocated maintenance costs and cost of debt until a capital reserve policy and ROE approach for the Rural service area are completed and filed with the BCUC. The inclusion of ROE/dividend and capital investment recovery (capital reserve transfer or amortization expense) would increase the required rate increase sought in this application at 2.94%. When the capital reserve policy and ROE approach for the Rural service area are completed, Nelson Hydro will provide a proposal to the BCUC regarding ROE and recovery of capital investments to the Rural service area.

13.2 When does Nelson Hydro plan to file the application regarding the matter of a fair return to the shareholder?

13.2.1 What is the anticipated nature and form of such application? What is Nelson Hydro working on now in preparation of such filing?

**RESPONSE:** Nelson Hydro conducted an in-person shareholder consultation/open house session. The open houses along of other matters discussed costs of service and rate design matters.

The following chart, as provided on page 11 of the application, shows expected process for cost of service, fair return and rate design matters.



Nelson Hydro anticipates filing COSA and Rate Design application in late 2019 for the year 2020.

13.3 Other than a cost of capital hearing which may be costly to the utility and its ratepayers, has Nelson Hydro considered any alternatives? For example, would transferring a dividend to its shareholder (i.e. existing practice) earning a percentage based on the Operations & Maintenance budget to be reasonable alternatives?

13.3.1 Please discuss the pros and cons of each possible option.

**RESPONSE:** As discussed during the review of 2017 rate application, that there is no universal “right way” to approach the cost of capital.

There are many factors that impact determination of a fair return on equity for Nelson Hydro Rural service area, including the status of the Nelson Hydro as a department of the City of Nelson where it must comply with the Municipal Liabilities Regulation under the Community Charter; how the assets are financed for each of the within-City assets and the outside-of-City assets; the relative expense of the Rural service area that require additional equipment to service this larger area; etc.

As indicated in the application, Nelson Hydro is working towards establishing an ROE approach for the Rural service area which is still being developed. Therefore, Nelson Hydro unable to provide “reasonable alternatives” at this time. Nelson Hydro will file an application with the BCUC when the ROE approach for the Rural service area is complete.

13.4 With respect to the operating income schedule in Appendix A, please clarify why Nelson Hydro has provided the “Operation Income after ROE and Transfers.”

13.4.1 How does each line item impact Nelson Hydro’s Application, if at all? Please specify and make reference to the calculations shown on page 8 of the Application.

**RESPONSE:** The lines “Target Rural ROE”, “Amortization Expense” and “Remove Debt Principal Payment” were provided for information purposes to illustrate estimated net income from Rural service area under the normal regulatory revenue requirement calculations which includes ROE and amortization expense. There is no impact from these lines to the proposed rate increase.

13.5 With respect to the operating income schedule in Appendix A, please show in detail the calculations to support the figures in line item “Target Rural ROE to get 11.99%/12.45%” for all years shown. Does Nelson Hydro have a capital structure approved by the BCUC? Otherwise, what assumptions have Nelson Hydro made to make such calculation?

13.5.1 Regarding the line item, please show in detail the calculation that arrives at \$1,642,600.

**RESPONSE:** Nelson Hydro used a normal rate base calculation approach, including mid-year balance of net book value of assets plus provision for working capital requirements [for simplicity provision for average inventory was not included in the rate base calculation]. The equity portion then is identified by total rate base less portion of debt.

The ROE target at 12.45% is based on the average of 2017 for BC Hydro [at 12.54%] and Fortis BC [at 12.36%].<sup>6</sup>

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<sup>6</sup> For BC Hydro ROE is calculated as total net income of \$684 million divided by Shareholder’s equity at \$5,456 million as per 2017/18 Annual Service Plan Report [the calculation is for 2017/18 fiscal year. <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/annual-reports/BCHydro-Crown-Corporation-2017-18-Annual-Report.pdf>. Fortis BC allowed ROE at 9.15% is based on allowed ROE as indicated in the 2017 Annual Report as after-tax ROE. [https://www.fortisbc.com/About/InvestorCentre/ElectricityUtility/Electricityquarterlyreports/Documents/FortisBC\\_Electric\\_MDA\\_2017\\_YE\\_D2\\_AUDIT\\_SEDAR.pdf](https://www.fortisbc.com/About/InvestorCentre/ElectricityUtility/Electricityquarterlyreports/Documents/FortisBC_Electric_MDA_2017_YE_D2_AUDIT_SEDAR.pdf). Fortis BC notes that pre-tax allowed ROE would be 12.36%. [https://www.bcuc.com/Documents/Proceedings/2017/DOC\\_49776\\_B-2\\_FBC\\_Annual\\_Review\\_2018\\_Rates\\_Application.pdf](https://www.bcuc.com/Documents/Proceedings/2017/DOC_49776_B-2_FBC_Annual_Review_2018_Rates_Application.pdf) page 61.

The following table illustrates the calculation of ROE for 2019 as provided in summary table in Appendix A.

	2019 Forecast, \$000		
	Urban	Rural	Total
Mid-Year Plant in Service	36,638	19,260	55,898
Mid-Year Accumulated Amortization	10,959	4,804	15,763
Net Book Value	25,679	14,457	40,136
Working Capital Requirements	927	706	1,634
<b>Mid-Year Rate Base</b>	<b>26,606</b>	<b>15,163</b>	<b>41,769</b>
Mid-Year Long-term Debt	3,498	1,970	5,468
<b>Equity Portion of Rate Base</b>	<b>23,107</b>	<b>13,194</b>	<b>36,301</b>
Target ROE, %		12.45%	
Target ROE, \$000		<b>1,642.6</b>	

13.6 With respect to the operating income schedule in Appendix A, please show the calculation or provide the reference for the -\$86,400 figure.

**RESPONSE:** The debt service cost of \$0.171 million in Appendix A for Rural service area includes a share of both principal and interest expenses of the long-term debt as illustrated below.

	Total	Urban	Rural
Principal	251.9	165.4	86.4
Interest	247.5	162.6	84.9
<b>Total Debt Cost</b>	<b>499.4</b>	<b>328.0</b>	<b>171.4</b>

The summary operating income table in Appendix A for illustration purposes also includes lines for “Dividend/ROE/Transfers”. When the return and recovery of capital investments are included in the revenue requirement the principal payments are removed from the cost of debt. Nelson Hydro would like to note that this exercise was done for illustration purposes to show the revenue shortfall from Rural service area under the normal regulatory revenue requirement calculations. As indicated in the previous responses, these calculations do not impact rate increase sought for 2019.

**14.0 Reference:** **FAIR AND REASONABLE RETURN**  
**Exhibit B-1, p. 4; Order G-124-18, reasons for decision, pp. 5-6**  
**Dividend adjustment**

Nelson Hydro transfers a dividend payment to its shareholder every year which could be considered a mechanism of “allowed return” to the shareholder. On pages 5 and 6 of its reasons for decision under Order G-124-18, the BCUC disallowed \$54,000 dividend payment to the shareholder.

On page 7 of the Application, Nelson Hydro calculates the Rural portion of the disallowed dividend payment to be \$19,220.17 including interest. The \$19,220.17 is deducted from the rate shortfall as shown in the 2019 Rural Rate Change Calculation on page 8 of the Application. The dividend adjustment calculation is as follows:

<b>Dividend Adjustment</b>			
<b>Capital Assets (2017)</b>			
	City	\$25,057,760	65.68%
	Rural	\$13,095,240	34.32%
	<b>Total</b>	<b>\$38,153,000</b>	
<b>Disallowed Dividend</b>			
	Dividend Increase (2018)	\$54,000.00	
	Rural Assets (%)	34.32%	
	<b>Dividend Increase Rural Portion</b>	<b>\$18,534.40</b>	
<b>Interest</b>			
	BMO Prime Rate (July 2018)	3.70%	
	Rural Dividend Increase (2018)	\$18,534.40	
	Interest (midyear 2018 - 2019)	\$685.77	
	<b>Rural Dividend Refundable</b>	<b>\$19,220.17</b>	
<b>2019 Full Year Rate Impact</b>			
	Electric Sales (2019 Fcst.)	-\$17,839,208.00	
	Rural Portion (Average 2010-2017)	39.32%	
	<b>Elect Sales Rural Portion (2019 Fcst.)</b>	<b>-\$7,014,376.59</b>	
	<b>Rural Dividend Refundable</b>	<b>\$19,220.17</b>	

In the supplementary information operating budget schedules, Nelson Hydro shows \$0 for the rural dividend payment from 2015 through 2019.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
				Application								Supplementary Filing			
				2015 Rural Act. (\$)	2016 Rural Act. (\$)	2017 Rural Act. (\$)	2018 Rural Act. (Prelim)	2018 Rural Bud (\$)	2019 Rural Bud (\$)	2018 - 2019 (\$)	2018 - 2019 (%)	2019 No R.C. (\$)	2019 No R.C. - 2019 Budget		
			Function Description												
28			Transfers												
29			Transfer - Dividend Pymt.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0		
30			Transfer - Major Capital Resv	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0		
31			Transfer - Water Licence Reserve	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0		
32			Capital Fund Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0		
33			Contribution to Community Complex	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0		
34			Transfer - Rural ROE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0		
35			<b>Transfers Total</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0		
69															
70															

All dividend payment transfers have been allocated to the urban customers.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1											Application		Supplementary Filing		
2			Function Description	2015 Utility Act. (\$)	2016 Utility Act. (\$)	2017 Utility Act. (\$)	2018 Utility Act. (Prelim) (\$)	2018 Utility Bud (\$)	2019 Utility Bud (\$)	2018 - 2019 (\$)	2018 - 2019 (%)	2019 No R.C. (\$)	2019 R.C. - 2019 Budget		
27			Transfers												
28			Transfer - Dividend Pymt.	\$2,600,000	\$2,860,000	\$2,700,000	\$2,754,000	\$2,754,000	\$2,836,000	\$82,000	2.98%	\$2,836,000	\$0		
29			Transfer - Major Capital Resv	\$1,419,445	\$3,152,000	\$3,892,283	\$0	\$2,486,307	\$2,877,100	\$390,793	15.72%	\$2,728,831	-\$148,269		
30			Transfer - Water Licence Rese	\$551,654	\$568,868	\$658,266	\$658,266	\$658,266	\$658,266	\$0	0.00%	\$658,266	\$0		
31			Capital Fund Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0		
32			Contribution to Community C	\$90,000	\$90,000	\$90,000	\$0	\$90,000	\$90,000	\$0	0.00%	\$90,000	\$0		
33			Transfer - Rural ROE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0		
34			<b>Transfers Total</b>	<b>\$4,661,099</b>	<b>\$6,670,868</b>	<b>\$7,340,549</b>	<b>\$3,412,266</b>	<b>\$5,988,573</b>	<b>\$6,461,366</b>	<b>\$472,793</b>	<b>7.89%</b>	<b>\$6,313,097</b>	<b>-\$148,269</b>		
35															
36															

14.1 Please explain why Nelson Hydro chose a capital asset allocation that assigns approximately 66 percent weight to urban and 34 percent to rural?

**RESPONSE:** The asset allocations percentages reflect 2017 actual year-end net book value of capital assets based on actual service area of the asset.

NBV of Urban assets = \$25,057,760 = 65.68%

NBV of Rural assets = \$13,095,240 = 34.32%

14.1.1 What are the alternative allocation methodologies with respect to the dividend adjustment, and why were they rejected?

**RESPONSE:** No alternative approach was considered for dividend adjustment considering the amount of the adjustment. The adjustment was done to comply with the BCUC direction to the Nelson Hydro to remove a portion of the dividend.

14.2 In the “Utility – Operating Budget” in Appendix B, the line item “Transfer – Dividend Pymt.” increased from \$2,754,000 to \$2,836,000. Please explain why the dividend payment has increased by \$82,000, or a 2.98 percent increase.

**RESPONSE:** The determination of the dividend amount reflects a balance between the requirements for reinvestment in ongoing capital investments, and general inflationary adjustments (approximately 3%) from the previous year. The dividend amount was also set based on considering customer impacts from rate increases. There is no precise formula.

Nelson Hydro also notes that the dividend amount of \$2,836,000 for 2019 is the residual after all other budget items are determined, which is within the range of sustaining capital which is estimated in the \$ 2.75 to \$3.0 million range.

14.2.1 Do rural customers contribute to any of this dividend payment? If yes, please provide the amount allocated to rural customers and the corresponding allocation methodology. Show calculations. If no, please clarify if Nelson Hydro has changed its practice from previous years, including an explanation on why the change is reasonable.

**RESPONSE:** As indicated in response to 12.1, Nelson Hydro is working towards establishing an ROE approach for the Rural service area. The 2019 Rural Rate application is seeking recovery of allocated maintenance costs and cost of debt until ROE approach for the Rural service area are completed and filed with the BCUC. The inclusion of ROE/dividend and capital investment recovery (capital reserve transfer or amortization expense) would increase the required rate increase sought in this application. When the ROE approach for the Rural service area is completed, Nelson Hydro will provide a proposal to the BCUC regarding ROE and recovery of capital investments to the Rural service area.

14.3 Please clarify why the \$19,220.17 dividend adjustment is not accounted for under the “Transfer” section in the operating budget schedules in Appendix B. For example, should the rural utility’s budget show -\$19,220.17 in 2019?

**RESPONSE:** The adjustment of \$19,220.17 was made to the calculation of the Rural service area shortfall for 2019 to comply with the BCUC Order G-124-18 in relation to the 2018 rates where the BCUC stated the following:

For the above reasons, the Panel finds that the proposed increase of \$54,000 to the 2018 dividend payment is not justified and therefore rejects the increase. The Panel approves a dividend amount of \$2,700,000 for 2018, consistent with the amount approved in the 2017 Decision. The Panel notes that this determination is limited to the non-municipal ratepayers, as the Panel does not have the jurisdiction to make determinations regarding the rates charged to municipal ratepayers. The Panel also notes that this determination does not preclude Nelson Hydro from seeking changes to dividend payments in future applications as may be warranted based on the COSA study results.

As the 2018 rate application did not provide a breakdown of the revenue requirement, including dividend, the adjustment of \$19,220.17 is not shown under the “Transfers” in Appendix A or Appendix B. This amount will reduce overall net income to Nelson Hydro and its shareholder.

14.4 Please confirm, or otherwise explain, that each line item under the “Transfers” section should read \$0 from 2015 through 2018 for the rural utility. Does this mean, for example, rural customer has not paid any dividend payments or contributed to the reserve fund since at least 2015? Please clarify.

**RESPONSE:** There is no impact from the 2015-2018 numbers in Appendix A provided for illustrative purposes of the normal regulatory revenue requirement to the 2019 rate increase proposal. The review of the 2015 through 2018 shows that rural rates were mostly recovering maintenance costs and cost of debt, while dividend and capital reserve transfers were mostly recovered through Urban revenues.

As indicated in response to 12.1, Nelson Hydro is working towards establishing an ROE approach for the Rural service area and as well as working to establish a capital reserve policy as directed by the BCUC. The 2019 Rural Rate application is seeking recovery of allocated maintenance costs and cost of debt until a capital reserve policy and ROE approach for the Rural service area are

completed and filed with the BCUC. When the capital reserve policy and ROE approach for the Rural service area are completed, Nelson Hydro will provide a proposal to the BCUC regarding ROE and recovery of capital investments to the Rural service area.

**15.0 Reference: FAIR AND REASONABLE RETURN  
Exhibit B-1, p. 2  
Capital spending**

On page 2 of the Application, Nelson Hydro submits that (1) Generator rewinds, (2) Substation construction, and (3) Voltage conversion projects have driven the need for capital spending above “sustaining levels”. Going forward infrastructure spending is expected to be on average at “sustaining levels.”

Nelson Hydro also states:

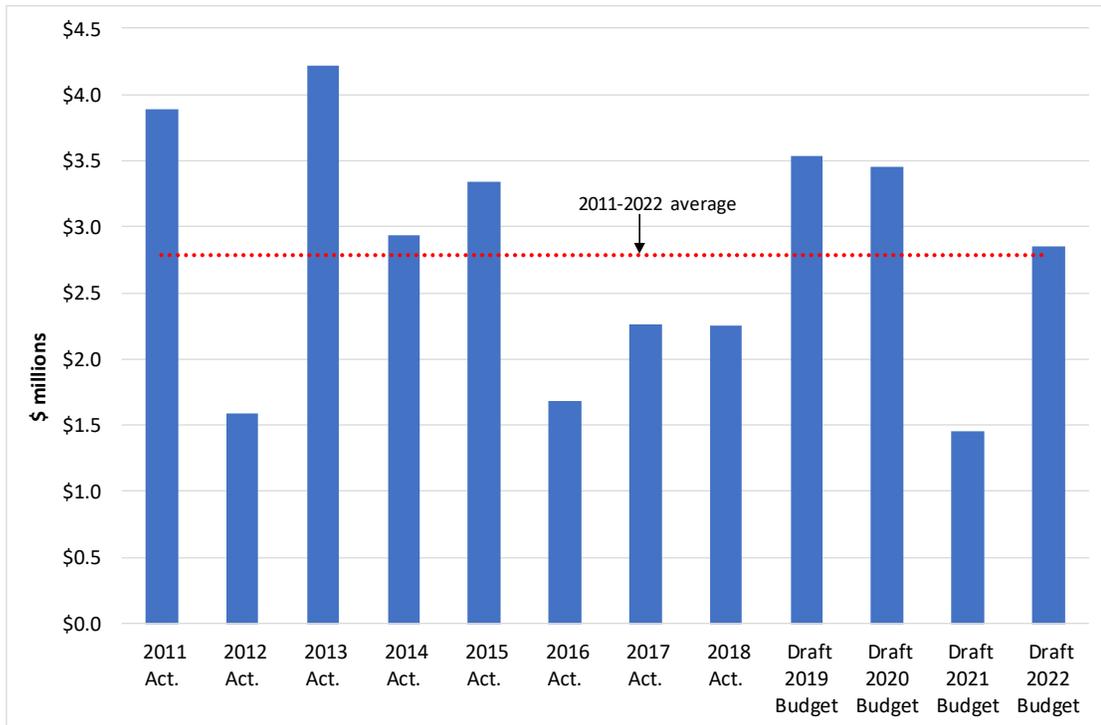
Nelson Hydro has little debt and no deferral accounts to create future rate pressure. Nelson Hydro forecasts the general rate pressure to be about 2.75% going forward.

15.1 Please clarify what Nelson Hydro means by “sustaining levels” for future infrastructure spending. Is this sustaining level the same for both urban and rural service areas?

**RESPONSE:** Nelson Hydro’s definition of the sustaining level of capital is what is required to keep up with infrastructure renewal without new additions. The information was provided in the application to inform the BCUC regarding the future rate pressures. The actual spending would depend on conditions of the assets at the time or emergency replacements [such as for storm damage].

Capital works tend to be “lumpy” and thus there can be short term anomalies in both the Rural and Urban service areas.

The following graph illustrates 2011-2018 actual and 2019-2022 draft budget capital expenditures for whole utility.



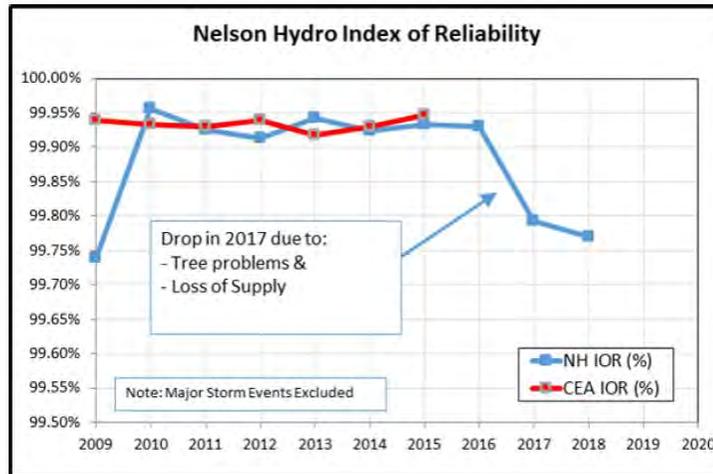
15.2 According to the historical Nelson Hydro general rate change, past rate increases ranged from a low of 2.02 percent in 2015 to high of 9.56 percent in 2011. Please clarify how and why Nelson Hydro forecast that the general rate pressure will be about 2.75 percent going forward from 2020 through 2023.

**RESPONSE:** The 2.75% rate pressure going forward was estimated based on set of assumptions regarding the future cost increases, including general inflation about 2%/year, power purchase increases from FortisBC at about 3 – 3.5%/year and assumed the capital investments at average sustaining level. For example, based on set of assumptions Nelson Hydro operating budget forecasts for 2023 at approximately \$20.9 million compared to 2019 budget of \$18.7 million which indicates annual average rate increase of 2.8%/year.

**E. REASONABLE, SAFE, ADEQUATE AND FAIR SERVICE**

**16.0 Reference:** REASONABLE, SAFE, ADEQUATE AND FAIR SERVICE  
Exhibit B-1, Section 7, p. 5  
Index of Reliability

On page 5 of the Application, Nelson Hydro provides a graph showing a graph system reliability.



16.1 Please confirm if the graph is for rural only, or both rural and urban. If both rural and urban, please provide the same graph for rural only.

**RESPONSE:** The graph is for the whole utility. Please see response to 16.2 below that provides separate information for Urban and Rural service areas. Please note that information for Urban and Rural separately is not available for 2009-2012 years.

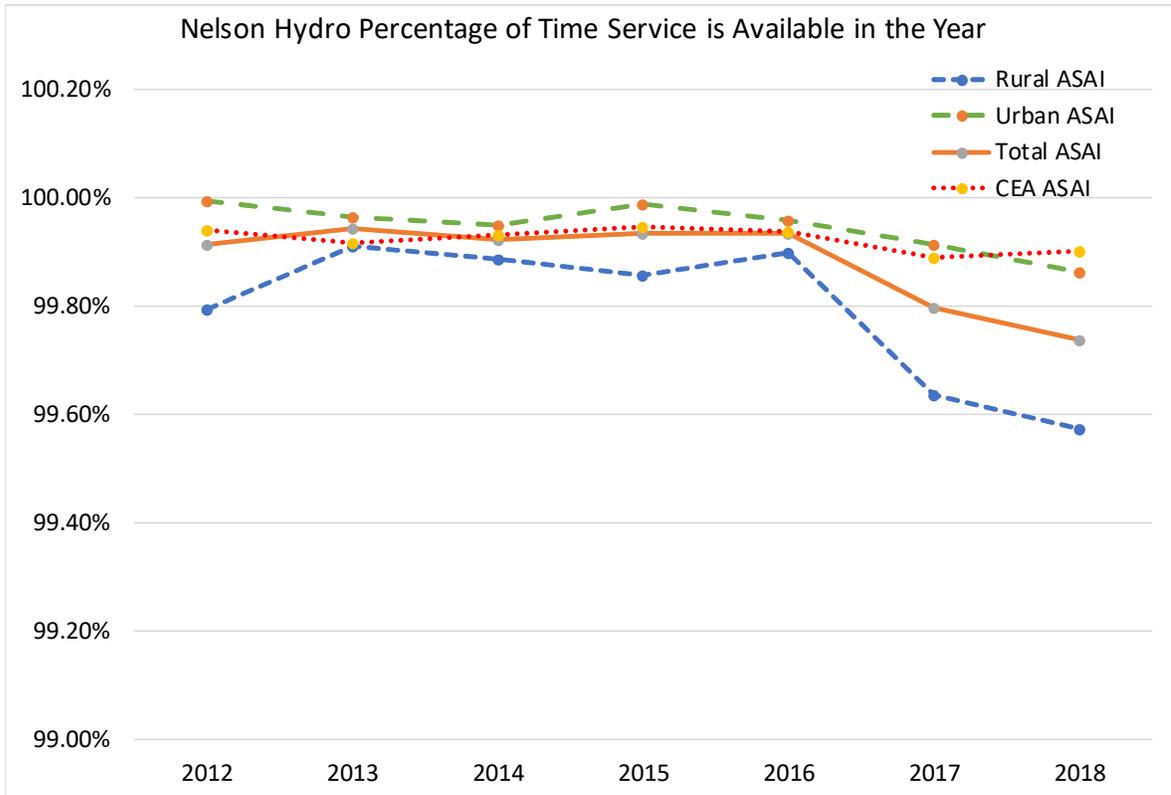
16.2 Please provide the approximate CEA index of reliability for 2016, 2017 and 2018 respectively, and compare these to the Rural Nelson Hydro amounts for the same years. Does Nelson Hydro consider these differences as significant? Why or why not? Please do the same comparison for the entire Nelson Hydro utility.

16.2.1 Please state what CEA stands for.

**RESPONSE:** The graph below provides ASAI, a measure of the percentage of time service is available in the year, for Nelson Hydro as a whole, Urban and Rural service areas and CEA. CEA stands for Canadian Electricity Association.

Source: CEA, 2017 Service Continuity Report Data on Distribution System Performance in Electrical Utilities, June 01, 2018, Ottawa, On, Table 7-1, Page 53

Nelson Hydro considers the loss in service availability in 2017 and 2018 to be significant. The increase in vegetation management budget is part of the measures being undertaking in order to improve reliability.



**17.0 Reference: REASONABLE, SAFE, ADEQUATE AND FAIR SERVICE  
Exhibit B-1, Section 7, p. 5, Appendix B  
Tree Related Outages**

On page 5 of the Application, Nelson Hydro states:

Tree caused outages amounted to 39% of the total outage time in 2018.

To address the, the utility increased its vegetation management budget by 33%. In addition to normal vegetation trim cycles, an additional effort will be made on danger trees. These are trees, outside the normally trimmed right of way, that are leaning, dead or otherwise posing a future hazard to power lines. Anecdotally our line crews report many outages are due to large trees from outside the right of way coming down during and after wind events...

...The Rural 2019 vegetation management budget was increased by \$100,000.00 and the urban vegetation management budget by \$50,000.

17.1 Please identify the line item in Appendix B that contains vegetation management costs. Does the “33%” increase represent the increase for the rural budget only, or total urban and rural?

**RESPONSE:** Both Rural and Urban Vegetation management budgets were increased by 33%.

17.2 Please explain Nelson Hydro's previous efforts on danger trees and compare them to electrical utility peers. Has Nelson Hydro looked at other ways of managing danger trees, in addition to increasing the budget on existing practices?

**RESPONSE:** Nelson Hydro does not have access to details of other utility practices or to their budgets for each km of line. Any comparison would be difficult beyond the immediate geographic area as obviously Saskatchewan would experience very different vegetation issues and budgets than utilities in BC. The most comparable utilities would BC Hydro and FortisBC. However, Nelson Hydro does not have details of the budgets or vegetation management programs of either of these utilities.

The primary considerations for danger trees are:

1. Let the tree fall – this causes outages often with overtime restoration costs – Is poor for reliability and expensive.
2. Identify danger trees and cut them while still standing. Increases vegetation management costs, but reduces outage restoration costs. Improves reliability over 1.
3. Increase Rights of Way widths to clear cut all trees posing danger to lines. Would be near impossible to acquire these expanded ROWs from private property owners. Would be an expensive vegetation management budget as non – danger trees would also be trimmed. Viewed as utopian ideal but impractical to achieve option.
4. Install all distribution and transmission line underground which resolves nearly all vegetation problems and costs but an extremely expensive first time install and conversion of existing lines cost. Estimate to be 4 to 8 times higher install costs than overhead lines.

17.3 Does Nelson Hydro have insurance coverage for any damages to lines caused by weather related events? Please explain.

**RESPONSE:** No. Nelson Hydro does have plant insurance for generating plants and substations but not for power lines exposed to weather events.

Previously, Nelson Hydro pursued Emergency Management BC for recovery costs from major weather event. For example, After the 2015 major windstorm event took place, the City of Nelson approached Emergency Management BC multiple times requesting the event eligible for Disaster Financial Assistance. In response, Southeast Emergency Management British Columbia stated that "Under EMBC's policy the scope and scale of this event does not meet the definition of a disaster under the Emergency Program Act. In addition there does not appear to be any eligible damage that would be compensable through DFA. Further, in EMBC's view the electrical utility damage is not included as compensable because of our definition of eligible public works and therefore DFA is not available for such damage. Based on the considerations above, EMBC has concluded that this weather event is not eligible for DFA."

For our knowledge, BC Hydro includes storm restoration costs in the revenue requirements based on a five-year average of normal weather years [section of 7.8.1 of BC Hydro 2020/21 RRA

available at [https://www.bcuc.com/Documents/Proceedings/2019/DOC\\_53488\\_B-1-BCH-F20-F21-RR-Application.pdf](https://www.bcuc.com/Documents/Proceedings/2019/DOC_53488_B-1-BCH-F20-F21-RR-Application.pdf)]. Fortis BC is also not insured for damages to power lines caused by weather related events.

17.4 Please explain how Nelson Hydro will identify and prioritize vegetation management (e.g. which tree or areas to address first).

**RESPONSE:** Nelson Hydro has a vegetation management plan that divides the utility into three main geographic target zones (South Shore, City and North Shore). 2019 is the year to focus on the North Shore. 2018 was a focus on the City.

In any of the zones first priority is transmission lines, then three phase distribution lines, then single phase distribution and finally secondary lines. This arranged so that the lines that affect the most customers are the highest priority.

17.5 What are Nelson Hydro's emergency preparedness guidelines or policies regarding vegetation management?

**RESPONSE:** During high fire risk season Nelson Hydro procedure is to put its distribution circuits on "single shot" to reduce the risk of starting a fire from a tree contacting the power lines. This has a negative effect of increased outage duration for any temporary faults but of course the reduced fire risk is worth the inconvenience.

**18.0 Reference: REASONABLE, SAFE, ADEQUATE AND FAIR SERVICE  
Exhibit B-1, Section 7, pp. 5-6  
Loss of Supply**

On page 5 of the Application, Nelson Hydro states:

Loss of supply from FortisBC resulted in 36% of the outage time to Nelson Hydro customers in 2018. In 2017 and 2018, loss of supply issues increased significantly from previous years. Nelson Hydro has discussed this with FortisBC and has reason to believe that Fortis BC understands and is committed to resolving these issues.

On page 6 of the Application, Nelson Hydro states it "...has been making system upgrades on the North shore to improve the situation..." and lists several upgrades.

18.1 Please explain why Nelson Hydro is making system upgrades if it believes that the loss of supply is due to FBC.

**RESPONSE:** Outages in 2017 and 2018 are due to many causes the most significant being loss of supply from FortisBC and tree related outage within the Nelson Hydro system. Those causes

within the Nelson Hydro system are with Nelson Hydro’s control or influence and it is therefore prudent for Nelson Hydro to address those causes it has control or influence over.

18.2 Please identify the line item and amount in Appendix B that reflects the increase to operating costs due to loss of supply issues.

**RESPONSE:** Loss of Supply reduces the reliability of Nelson Hydro to our customers it does directly increase costs. There is a small loss of revenue from outages.

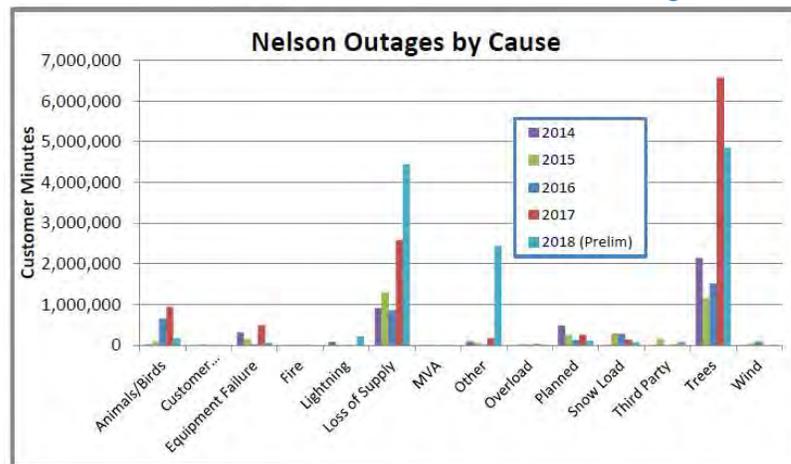
18.3 Please explain the terms and conditions Nelson Hydro has with FBC in supplying power. Is FBC required to provide firm service to Nelson Hydro? Is there a threshold for maximum loss of supply amounts? Are there penalties to FBC for exceeding these amounts? Please explain.

**RESPONSE:** Similar to most electrical tariff and contracts FortisBC is not required to provide firm service to Nelson Hydro. There are no thresholds.

FortisBC does have to report reliability as one of its SQIs to the BCUC in their annual reviews. Wholesale customers are only considered a single customer with these SQI and so do not provide a representation of the impact of loss of supply outages. The British Columbia Municipal Electrical Utilities (BCMUEU), of which Nelson Hydro is member, pursuing for SQI reflecting the impact to wholesale customers and this is one of the subjects of the current FortisBC Multi-year Rate Plan hearing underway.

**19.0 Reference: REASONABLE, SAFE, ADEQUATE AND FAIR SERVICE  
Exhibit B-1, Section 7, p. 6  
Other Events**

On page 6 of the Application, Nelson Hydro provides a graph of Outages by Cause. Nelson Hydro defines “Other” events as “...events where no definitive source of outage is found.”



19.1 Please identify the line item and amount in Appendix B that reflects the increase to operating costs due to “Other” outage events.

**RESPONSE:** Other outages reduce the reliability of Nelson Hydro to our customers they do not directly increase costs. There is a small loss of revenue from outages.

19.2 Please explain what steps Nelson Hydro is undertaking to investigate and resolve the increase in “Other” outages shown for 2017 and 2018.

**RESPONSE:** Nelson Hydro adjusted the tension in a transmission line to reduce the likelihood of line slap. It is not known, and never will be known, for certain what caused these “other” outages but there have been no recurrences since adjusting the line tension.

**20.0 Reference: REASONABLE, SAFE, ADEQUATE AND FAIR SERVICE  
Exhibit B-1, Appendix B Capital budget**

In Appendix B of the Application, Nelson Hydro provides its capital budget for 2015–2017 actual, 2018 year to date preliminary, 2018 budget and draft 2019-2023 budget.

In several letters of comment, some parties made submissions regarding the City of Nelson’s fibre optic infrastructure and solar garden investments.<sup>7</sup>

In the reasons for decision under Order G-124-18, the BCUC found Nelson Hydro’s budget of \$2,000 for the Community Solar Garden to be reasonable. With the exception of the \$2,000 annual maintenance costs, the project costs are attributable to and recovered from those ratepayers who have chosen to invest in the solar panels.

20.1 Please confirm, or otherwise explain, that the investment dollars shown in the capital budget in Appendix B relates to the whole utility (i.e. both urban and rural).

**RESPONSE:** Confirmed. The capital budget is for the whole utility.

20.2 Please clarify whether Nelson Hydro in this Application is seeking any BCUC approval or acceptance in any of the specific projects listed in the capital budget. If so, please provide greater detail for such project(s).

**RESPONSE:** The proposed Rural rates for 2019 are designed to recover operating and maintenance costs and cost of debt. The capital projects for the Rural service area will be part of the rate base in the future Rural service area rate filings. Nelson Hydro is not seeking approval of any specific capital project.

20.3 Please explain and show how any of listed projects under the capital budget schedule are capital additions and would impact the proposed 2019 rural rate change. Please

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<sup>7</sup> Exhibit E-2, E-2-1, E-2-2, E-3, E-5 and E-6.

provide the month/year of each of the anticipated expenditures and the expected in-service dates.

**RESPONSE:** All of the projects in the capital budget are capital additions as they are either;

- Improvements to existing assets, or
- New assets

These projects do not impact the 2019 rate changes. However, will impact 2020 and subsequent reliability and rate changes. For example, the marine cable installation is being undertaken to assure ongoing reliability of service to the North Shore (Rural). The VVO project is to reduce operating (power purchase) costs on a section of the North shore (rural).

Please see revised Capital budget table to indicate the primary purpose and expected in service dates for the 2019 capital projects.

20.4 Please clarify whether rural customers are paying for any costs related to the City of Nelson’s fibre optic infrastructure. If so, please provide the amount and justification/rationale.

**RESPONSE:** The rural customers are not paying any costs of the City of Nelson’s fibre optic infrastructure.

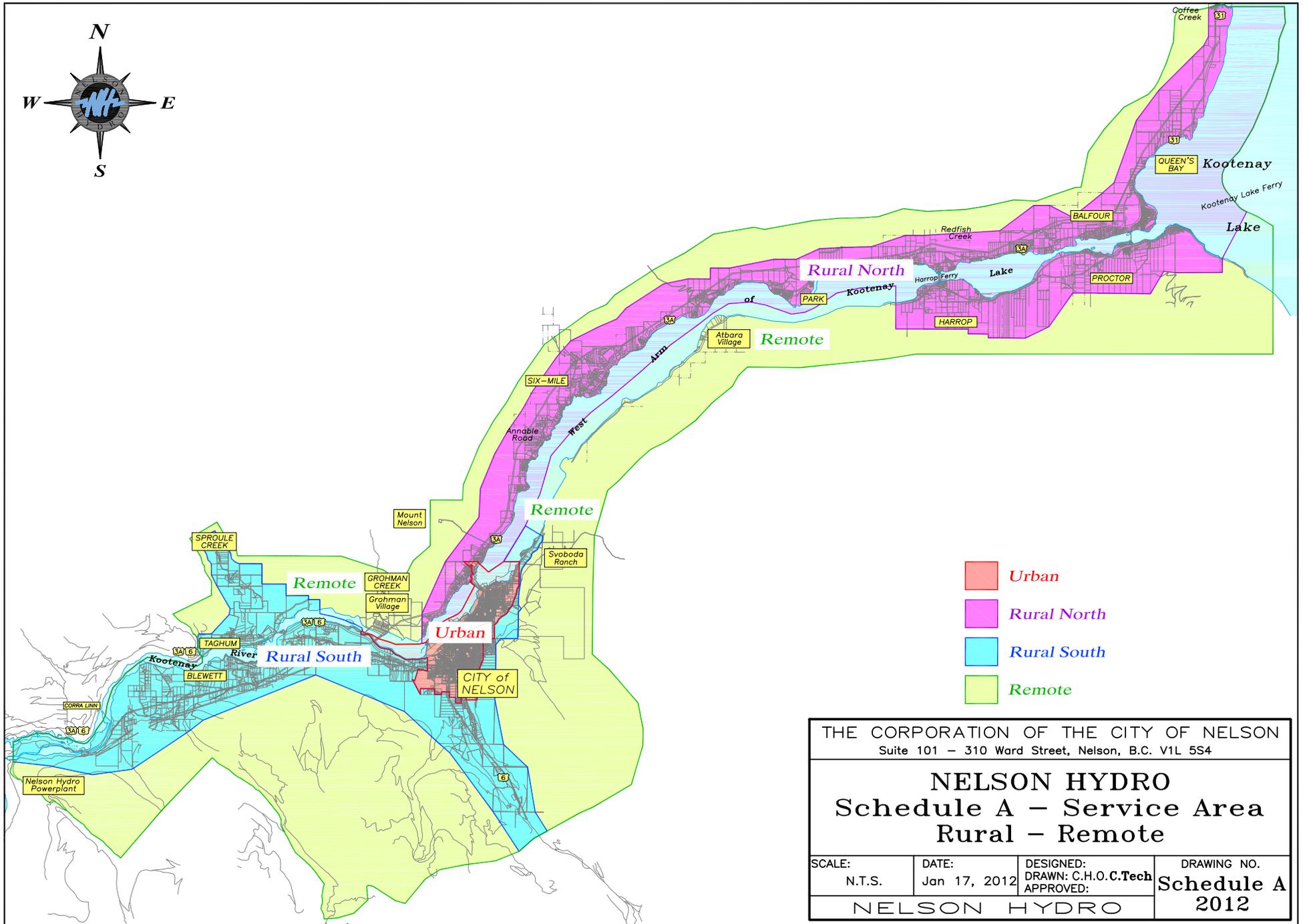
However, it should be noted that Nelson Hydro did install fiber optic cable as part of its marine cable crossing in 2019. This is for Nelson Hydro purposes (communications to Nelson Hydro’s North Shore assets, and future metering telemetry) and not related or part of the City of Nelson Fiber optic business.

20.5 In the capital budget under EcoSave, please provide further information regarding cost and timeline of the “Solar Garden – new” line item. Clarify whether rural customers are paying for any costs related to the solar garden investments. If so, please provide the amount and justification/rationale.

**RESPONSE:** As indicated in the application the proposed Rural rates for 2019 are designed to recover operating and maintenance costs and cost of debt. In addition to this, as Appendix B shows, there is no budget for this capital project in 2019. 2019 operating budget includes \$2,000 as ongoing maintenance costs as required basis. Rural service area shares about 32% of this cost. Please see response to 11.1.

20.5.1 Please clarify why there is no budget for 2018, 2019 and beyond, given that Nelson Hydro’s 2018 year-to-date spending is \$18,483.

**RESPONSE:** This expense was a portion of a security system that was installed at the power plant, which also included the solar garden area, since that is in place there is no need to budget for it in future years.





**THE CORPORATION OF THE CITY OF NELSON**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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**THE CORPORATION OF THE CITY OF NELSON**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Year Ended December 31, 2018

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**Management Report**

**Independent Auditors' Report**

**Financial Statements**

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Financial Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

Schedule A - Consolidated Statement of Tangible Capital Assets

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**THE CORPORATION OF THE CITY OF NELSON  
MANAGEMENT REPORT**

For the Year Ended December 31, 2018

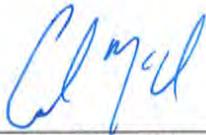
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**RESPONSIBILITY FOR FINANCIAL REPORTING**

Management is responsible for the preparation of the accompanying consolidated financial statements. The financial statements have been prepared in accordance with the accounting principles disclosed in Note 1 to the consolidated financial statements and include amounts that are based on estimates and judgments. Management believes that the financial statements fairly present The Corporation of the City of Nelson's consolidated financial position and results of operations. The integrity of the information presented in the financial statements, including estimates and judgments relating to matters not concluded by fiscal year-end, is the responsibility of management. The financial statements have been approved by Council.

Management has established and maintained appropriate systems of internal control including policies and procedures, which are designed to provide reasonable assurance that The Corporation of the City of Nelson's assets are safeguarded and that reliable financial records are maintained to form a proper basis for preparation of the financial statements.

The independent external auditors, Grant Thornton LLP, have been appointed by Council to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, The Corporation of the City of Nelson's financial position, results of operations, and changes in financial position in conformity with the accounting principles disclosed in Note 1 to the consolidated financial statements. The report of Grant Thornton LLP follows and outlines the scope of their examination and their opinion on the consolidated financial statements.



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Colin McClure, CPA, CA  
Chief Financial Officer



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## INDEPENDENT AUDITOR'S REPORT

To the Mayor and Council  
Corporation of the City of Nelson

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Grant Thornton LLP  
513 Victoria Street  
Nelson, BC  
V1L 4K7  
T +1 250 352 3165  
F +1 250 352 7166

### Opinion

We have audited the accompanying consolidated financial statements of Corporation of the City of Nelson, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of operations, consolidated statement of changes in net financial assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Corporation of the City of Nelson as at December 31, 2018, and its results of operations, its changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Matters

The consolidated financial statements of the Corporation of the City of Nelson for the year ended December 31, 2017, were audited by Berg Lehmann Chartered Professional Accountants who expressed an unmodified opinion on those statements on May 7, 2018.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the City's financial reporting process.

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## **INDEPENDENT AUDITOR'S REPORT (continued)**

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the City's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Grant Thornton LLP*

**Chartered Professional Accountants**

May 6, 2019

Nelson, B.C.

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**THE CORPORATION OF THE CITY OF NELSON**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at December 31, 2018

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	<u>2018</u>	<u>2017</u>
<b>Financial Assets</b>		
Cash and cash equivalents (Note 2)	\$ 32,121,024	\$ 30,642,773
Investments (Note 3)	3,045,552	3,005,368
Accounts receivable (Note 4)	7,114,429	6,123,372
Long-term accounts receivable (Note 5)	2,986,334	3,316,934
MFA deposits (Note 6)	<u>320,748</u>	<u>313,917</u>
	<u>45,588,087</u>	<u>43,402,364</u>
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	5,907,884	5,799,638
Deferred revenue (Note 8)	4,533,720	5,768,320
Accrued future payroll benefits (Note 9)	2,010,052	1,958,590
Capital lease obligation (Note 10)	343,916	350,235
Debt (Note 11)	<u>14,048,237</u>	<u>15,317,222</u>
	<u>26,843,809</u>	<u>29,194,005</u>
<b>Net Financial Assets</b>	18,744,278	14,208,359
<b>Non -Financial Assets</b>		
Tangible capital assets (Note 12)	161,267,671	154,334,248
Inventory (Note 13)	1,231,677	1,321,861
Prepaid expenses	<u>290,853</u>	<u>318,734</u>
	<u>162,790,201</u>	<u>155,974,843</u>
<b>Accumulated Surplus (Note 14)</b>	<u>\$181,534,479</u>	<u>\$170,183,202</u>

Commitments and Contingencies (Note 18)



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Colin McClure, CPA, CA  
Chief Financial Officer

**THE CORPORATION OF THE CITY OF NELSON**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

For the Year Ended December 31, 2018

	<u>2018 Budget</u> (Note 21)	<u>2018</u>	<u>2017</u>
<b>Revenue</b>			
Taxes	\$ 10,462,065	\$ 10,520,754	\$ 10,188,590
Sale of services	3,808,118	3,686,986	3,393,001
Other revenue from own sources	3,868,372	3,609,485	3,298,250
Investment income	480,900	973,698	523,976
Grants - unconditional (Note 19)	785,557	798,291	784,993
Grants - conditional (Note 19)	6,810,391	6,260,536	2,829,650
Water user fees	3,558,112	3,543,563	3,490,223
Sewer user fees	3,053,133	3,037,346	3,001,144
Transit user fees	269,060	286,702	282,828
Nelson Hydro sales	<u>17,404,106</u>	<u>18,509,343</u>	<u>18,353,665</u>
	<u>50,499,814</u>	<u>51,226,704</u>	<u>46,146,320</u>
<b>Expenses</b>			
General government	3,592,808	3,524,459	3,685,146
Protective services	6,683,907	6,619,777	6,426,410
Transportation services	3,764,697	3,389,898	3,138,873
Environmental health services	277,188	217,230	257,514
Public health and welfare services	193,641	170,686	183,659
Parks, recreation and cultural services	1,994,296	2,009,118	2,170,771
Interest and other debt charges	898,602	797,155	785,489
Water utility operations	1,340,385	1,353,784	1,381,373
Sewer utility operations	1,845,134	1,796,446	1,834,528
Nelson Hydro operations	11,493,794	11,427,555	11,328,455
Transit operations	1,639,911	1,678,083	1,568,395
Library	907,237	904,865	893,786
Amortization	5,456,407	5,786,038	5,342,649
Loss on disposal of tangible capital assets	-	200,333	360,516
	<u>40,088,007</u>	<u>39,875,427</u>	<u>39,357,564</u>
Annual surplus	10,411,807	11,351,277	6,788,756
Accumulated surplus, beginning of the year	<u>170,183,202</u>	<u>170,183,202</u>	<u>163,394,446</u>
<b>Accumulated surplus, end of the year</b>	<b><u>\$180,595,009</u></b>	<b><u>\$181,534,479</u></b>	<b><u>\$170,183,202</u></b>

The accompanying summary of significant accounting policies and notes form an integral part of these consolidated financial statements

**THE CORPORATION OF THE CITY OF NELSON**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS**

For the Year Ended December 31, 2018

	<u>2018 Budget</u>	<u>2018</u>	<u>2017</u>
Annual surplus	\$ 10,411,807	\$ 11,351,277	\$ 6,788,756
Acquisition of tangible capital assets	(17,908,266)	(13,031,609)	(7,319,151)
Amortization of capital assets	5,456,407	5,786,038	5,342,649
Proceeds on sale of tangible capital assets	-	111,815	101,163
Loss on disposal of tangible capital assets	-	200,333	360,516
	<u>(2,040,052)</u>	<u>4,417,854</u>	<u>5,273,933</u>
Consumption (acquisition) of prepaid expenses	-	27,881	(54,165)
Consumption (acquisition) of supply inventory	-	90,184	(21,952)
	<u>-</u>	<u>118,065</u>	<u>(76,117)</u>
Increase (decrease) in net financial assets	(2,040,052)	4,535,919	5,197,816
Net financial assets, beginning of year	<u>14,208,359</u>	<u>14,208,359</u>	<u>9,010,543</u>
<b>Net financial assets, end of the year</b>	<u>\$ 12,168,307</u>	<u>\$ 18,744,278</u>	<u>\$ 14,208,359</u>

The accompanying summary of significant accounting policies and notes form an integral part of these consolidated financial statements

**THE CORPORATION OF THE CITY OF NELSON**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2018

	<u>2018</u>	<u>2017</u>
<b>Cash Provided by (Used In)</b>		
<b>Operating Activities</b>		
Annual surplus	\$ 11,351,277	\$ 6,788,756
<b>Items not involving cash:</b>		
Amortization of tangible capital assets	5,786,038	5,342,649
Actuarial adjustments	(377,944)	(327,791)
Loss on disposal of tangible capital assets	<u>200,333</u>	<u>360,516</u>
	16,959,704	12,164,130
<b>Increase (decrease) in non-cash operating items:</b>		
Accounts receivable	(991,057)	(339,288)
Long-term accounts receivable	330,600	446,281
MFA deposits	(6,831)	(6,005)
Accounts payable and accrued liabilities	108,246	849,570
Deferred revenue	(1,234,600)	2,163,900
Accrued future payroll benefits	51,462	(40,603)
Inventory	90,184	(21,952)
Prepaid expenses	<u>27,881</u>	<u>(54,165)</u>
	<u>15,335,589</u>	<u>15,161,868</u>
<b>Financing Activities</b>		
Debt repayment	(891,041)	(891,041)
Repayment of capital lease obligations	<u>(6,319)</u>	<u>(5,808)</u>
	<u>(897,360)</u>	<u>(896,849)</u>
<b>Capital Activities</b>		
Proceeds from disposal of tangible capital assets	111,815	101,163
Acquisition of tangible capital assets	<u>(13,031,609)</u>	<u>(7,319,151)</u>
	<u>(12,919,794)</u>	<u>(7,217,988)</u>
<b>Investing Activities</b>		
Net purchase of investments	<u>(40,184)</u>	<u>(81,115)</u>
<b>Net decrease in Cash</b>	1,478,251	6,965,916
<b>Cash and cash equivalents, beginning of year</b>	<u>30,642,773</u>	<u>23,676,857</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 32,121,024</u>	<u>\$ 30,642,773</u>

The accompanying summary of significant accounting policies and notes form an integral part of these consolidated financial statements

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**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

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**1. Significant Accounting Policies**

The Corporation of the City of Nelson (the City) is a local government in the Province of British Columbia. The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards.

The following is a summary of the City's significant accounting policies:

(a) **Basis of Presentation**

The City of Nelson's resources and operations are segregated into General, Water Utility, Wastewater Utility, Hydro Utility, Transit, and Reserve Funds for accounting and financial reporting purposes. The consolidated financial statements include all the accounts of these funds. All material inter-fund transactions and balances have been eliminated within the consolidated financial statements.

(b) **Revenue Recognition**

Sources of revenue are recorded on the accrual basis and include revenue in the period in which the transactions or events occurred that give rise to the revenues. Taxation revenues are recognized at the time of issuing the property tax notices for the fiscal year. Sale of services and user fee revenues are recognized when the service or product is rendered by the City.

Grant revenues are recognized when the funding becomes receivable. Revenue unearned in the current period is recorded as deferred revenue.

(c) **Deferred Revenue**

Deferred revenue represents funds received for specific purposes which are externally restricted by legislation, regulation or agreement and are not available for general municipal purposes as well as licenses, permits, other fees and grants which have been collected, but for which the related services have not been performed and or projects have not been constructed. These amount will be recognized as revenues in the fiscal year in which it is used for the specified purpose, the services are performed and or the projects are constructed.

(d) **Government Transfers**

Government transfers are recognized in the consolidated financial statements as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates can be made.

(e) **Financial Instruments**

The City's financial instruments consist of cash and short term investments, accounts receivable, due from other governments, trades accounts payable and accrued liabilities, employee benefit plans and long term debt. It is management's opinion that the City is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values.

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**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

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1. **Significant Accounting Policies** (continued)

(f) **Accrued Future Payroll Benefits**

The City records the cost of future payroll benefits over the employee's term of employment. Upon retirement a portion of accumulated sick leave credits are paid to the employee based on years of service.

(g) **Interest and Actuarial Gains on Long Term Debt**

The City records interest expense on long-term debt on an accrual basis and actuarial gains when realized as a reduction of the principal balance.

(h) **Tangible Capital Assets**

Tangible capital assets, comprised of capital assets and capital assets under construction, are recorded at cost and are classified according to their functional use. Amortization is recorded on a straight-line basis over the estimated useful life of the asset commencing the year the asset is put in to service. Donated tangible capital assets are reported at fair value at the time of donation. Estimated useful lives are as follows:

Land Improvements	15 to 20	years
Buildings	10 to 75	years
Fixtures, Furniture, Equipment & Vehicles	4 to 20	years
Technology	4 to 10	years
Roads and Paving	10 to 100	years
Bridges and other Transportation Structures	10 to 100	years
Water Infrastructure	10 to 100	years
Sewer Infrastructure	10 to 100	years
Nelson Hydro Infrastructure	10 to 100	years
Storm Drain Infrastructure	10 to 100	years

(i) **Non-Financial Assets**

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(j) **Inventory of supplies**

Inventory of supplies held for consumption are recorded at the lower of weighted average cost and replacement cost.

(k) **Statutory Reserves**

Statutory reserves are funds that have been restricted by council. Formal establishing bylaws have been adopted pursuant to the Community Charter, which define how these reserves are to be used.

(l) **Reserves Set Aside by Council**

Reserves set aside by Council are non-statutory reserves which represent an appropriation of surplus for specific purposes. These internally restricted funds are not available for unrestricted purposes without the approval of Council.

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**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

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1. **Significant Accounting Policies** (continued)

(m) Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. Significant areas requiring estimates include the useful lives of tangible capital assets for amortization, future employee benefits, allowance for doubtful accounts and provision for contingencies. Actual results could differ from management's best estimates as additional information becomes available in the future.

(n) Budget

Budget data presented in these consolidated financial statements is based on the City's Five Year Financial Plan for the years 2018-2022, adopted by Council on May 7, 2018.

(o) Expenses

Expenses are recorded in the period in which the goods or services are acquired and the liability is incurred.

(p) Liability for Contaminated Sites

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when a site is not in productive use and all of the following criteria are met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the City is directly responsible, or accepts responsibility;
- it is expected that a future economic benefit will be given up; and
- a reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance, and monitoring that are an integral part of the remediation strategy for a contaminated site.

There are no liabilities to be recorded as at December 31, 2018.

**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

**2. Cash and Cash Equivalents**

Cash and cash equivalents in the statement of financial position are comprised of:

	2018	2017
Cash	\$ 5,425,275	\$ 4,454,851
MFA bond and money market funds	<u>26,695,749</u>	<u>26,187,922</u>
	<u>\$ 32,121,024</u>	<u>\$ 30,642,773</u>

Municipal Finance Authority (MFA) pooled investment funds are considered equivalent to cash because of their liquidity.

**3. Investments**

Investments are carried according to the cost method, where cost is adjusted to reflect accrued interest less any permanent decline in market value below cost. Investments are composed of Government and Bank issued accrual notes and debentures as follows:

<u>Maturity</u>	2018 Carrying Value	2018 Market Value	2017 Carrying Value	2017 Market Value
2017	\$ -	\$ -	\$ 1,024,802	\$ 1,024,802
2018	1,572,332	1,575,504	511,024	508,465
2019	305,548	285,600	301,870	292,076
2020	36,722	37,011	36,722	36,566
2021	96,171	88,200	96,171	92,248
2022	296,886	271,578	296,886	284,308
2023	399,800	360,714	399,800	387,918
Thereafter	<u>338,093</u>	<u>350,596</u>	<u>338,093</u>	<u>342,412</u>
	<u>\$ 3,045,552</u>	<u>\$ 2,969,203</u>	<u>\$ 3,005,368</u>	<u>\$ 2,968,795</u>

**4. Accounts Receivable**

	2018	2017
Property taxes	\$ 397,038	\$ 504,819
Utility billings	3,903,246	3,941,780
Other governments	224,040	273,075
Trade & other receivables	<u>2,590,105</u>	<u>1,403,698</u>
	<u>\$ 7,114,429</u>	<u>\$ 6,123,372</u>

**5. Long Term Accounts Receivable**

The City entered into an agreement with Selkirk College in April 2000, to undertake certain improvements to the Tenth Street Campus. Selkirk College is paying for the improvements over a 25 year term in equal monthly installments at the Municipal Finance Authority lending rate plus 1%.

On-bill financing refers to the financial loan service that the City of Nelson has made available for energy retrofits. The customer repays the on-bill financing loan on their regular Nelson Hydro utility bill through automatic withdrawal. The loan is available to those who reside within the City of Nelson and approval is based on payment history and property ownership verification. The maximum allowable loan is \$16,000 with the choice of a 5 or 10 year repayment term, the current fixed interest rate is 3.5% The interest rate is subject to change for any new loans on January first of each year.

**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

5. **Long Term Accounts Receivable** (continued)

The City has also entered into agreements with various organizations for goods and services or to repay long term financing agreements over an extended period of time.

	2018	2017
Selkirk College	\$ 2,423,399	\$ 2,716,047
Ecosave energy retrofits on-bill financing loans	270,585	243,030
Various other agreements	<u>292,350</u>	<u>357,857</u>
	<u>\$ 2,986,334</u>	<u>\$ 3,316,934</u>

6. **Municipal Finance Authority Debt Reserve Fund**

The Municipal Finance Authority of British Columbia (MFA) provides capital financing for regional districts and their member municipalities. The MFA is required to establish a Debt Reserve Fund. The MFA must then use this fund if at any time there are insufficient funds to meet payments on its obligations. If this occurs the regional districts may be called upon to restore the fund.

Each regional district, through its member municipalities who share in the proceeds of a debt issue, is required to pay into the Debt Reserve Fund certain amounts set out in the financing agreements. The interest earned on the Debt Reserve Fund, less administrative expenses, becomes an obligation of the MFA to the regional districts.

Upon maturity of a debt issue, the unused portion of the Debt Reserve Fund established for that issue will be discharged to the Municipality. The proceeds from these discharges will be credited to income in the year they are received. As at December 31, 2018, the total of the Debt Reserve Fund was comprised of:

	2018 Cash Deposit	2018 Demand Note	2018 Total	2017 Total
General fund	\$ 197,666	\$ 470,990	\$ 668,656	\$ 664,447
Sewer utility	16,682	40,843	57,525	57,169
Water utility	14,739	36,091	50,830	50,516
Nelson Hydro	<u>91,661</u>	<u>174,898</u>	<u>266,559</u>	<u>264,607</u>
	<u>\$ 320,748</u>	<u>\$ 722,822</u>	<u>\$ 1,043,570</u>	<u>\$ 1,036,739</u>

7. **Accounts Payable and Accrued Liabilities**

	2018	2017
Trades payable	\$ 5,226,264	\$ 4,513,619
Accrued wages and benefits	397,525	1,007,420
Accrued interest	122,627	122,627
Funds held on deposit	<u>161,468</u>	<u>155,972</u>
	<u>\$ 5,907,884</u>	<u>\$ 5,799,638</u>

**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

**8. Deferred Revenue**

	2018	2017
Taxes and utility prepayments	\$ 2,992,267	\$ 2,879,512
Hydro utility prepayments	604,922	422,078
Grants	346,918	1,966,935
Other	589,613	499,795
	\$ 4,533,720	\$ 5,768,320

**9. Accrued Future Payroll Benefits**

	2018	2017
Holiday Pay	\$ 741,140	\$ 739,647
Sick Leave	1,111,791	1,054,786
Banked Overtime	157,121	164,157
	\$ 2,010,052	\$ 1,958,590

The City accrues holiday pay, sick leave, and banked overtime as they are earned by the employee, however, it is expected that these substantially funded liabilities will be met on a continuous basis over the long-term. Payment of these amounts will be funded from revenues of the period in which they are settled.

Employees of the City are entitled to accumulate earned benefits related to sick leave. Employees accumulate sick leave on a pro-rata basis at a rate dependent on the relevant contract or collective agreement with the City. Upon retirement from the City, employees are entitled to a portion of their accumulated sick leave based on years of service in excess of 5 years.

The deferred liability related to sick leave is valued at management's best estimate, which is based on past experience and assumptions about retirement, wage, and salary increases and employee turnover.

**10. Capital Lease Obligations**

**FortisBC Energy Lease**

The City has entered into a 35 year capital lease with FortisBC Energy Inc (formerly Terasen Gas Inc.), commencing October 31, 2003 for the natural gas distribution system within the municipality's boundary for \$8,000,000. The City has prepaid \$7,600,000 of the capital lease obligation and has financed the prepayment through debt with the Municipal Finance Authority. The remaining obligation of \$400,000 is being paid through annual lease payments of \$36,354 including interest at 8.614%.

The City has also entered into a seventeen year operating lease with FortisBC expiring October 31, 2020 whereby the City leases back to FortisBC the operations of the gas distribution system. Under the operating lease FortisBC is required to make annual lease payments to the City calculated by a formula specified in the agreement which is based on the total annual revenue generated by the transaction. At the end of the seventeen year term FortisBC has the option of making a termination payment to the City equal to the unamortized portion of the City's \$7,600,000 prepayment under the capital lease which is estimated to be \$3,900,000, or negotiate a new eighteen year operating lease with a continuation of the annual lease payments which existed under the previous seventeen year operating lease. Discussions with Fortis regarding the continuation or cancellation of the lease have not yet commenced, but are expected to begin in advance of the maturity date.

**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

11. **Debt**

Debt Bylaw #	Purpose of Bylaw	Interest rate %	Year of Maturity	Original Issue	2018 Balance	2017 Balance
<b>General Purposes:</b>						
3107	Catacombs	3.85%	2033	\$ 275,000	\$ 224,980	\$ 235,784
3107	Baker Street bridge	3.85%	2033	900,000	736,299	771,657
3034	Street construction	4.82%	2022	50,341	16,435	20,157
2871	Tenth Street campus	3.15%	2025	6,080,000	2,452,397	2,745,044
3036	Highway 3A	4.00%	2021	300,000	74,878	97,943
2978	Fortis Gas	4.50%	2020	4,200,000	976,661	1,437,003
				<u>11,805,341</u>	<u>4,481,650</u>	<u>5,307,588</u>
Short-term financing		CDOR+.5%			<u>2,753,604</u>	<u>2,753,604</u>
<b>Water Purposes:</b>						
3038	Fairview reservoir	4.82%	2022	240,000	78,354	96,096
3106	Water improvements	4.90%	2029	1,000,000	644,611	690,570
				<u>1,240,000</u>	<u>722,965</u>	<u>786,666</u>
<b>Sewer Purposes:</b>						
3037	Sewage treatment plant	4.00%	2021	550,000	137,277	179,562
3109	Sewer improvements	4.90%	2029	500,000	322,306	345,285
				<u>1,050,000</u>	<u>459,583</u>	<u>524,847</u>
<b>Hydro Purposes:</b>						
3110	Hydro improvements	4.90%	2029	1,500,000	966,917	1,035,855
3223	Hydro improvements	3.05%	2032	6,000,000	4,663,518	4,908,662
				<u>7,900,000</u>	<u>5,630,435</u>	<u>5,944,517</u>
Total Debt					<u>\$ 14,048,237</u>	<u>\$ 15,317,222</u>

Principal payments and expected actuarial additions for the next 5 years and thereafter are as follows:

	General	Water	Sewer	Hydro	Total
2019	\$ 3,614,042	\$ 66,249	\$ 67,875	\$ 326,646	\$ 4,074,812
2020	896,384	68,899	70,590	339,712	1,375,585
2021	416,015	71,665	73,414	353,300	914,394
2022	407,344	74,521	26,883	367,432	876,180
2023	420,855	55,916	27,959	382,129	886,859
Thereafter	<u>(1,272,990)</u>	<u>385,715</u>	<u>192,862</u>	<u>3,861,216</u>	<u>3,166,803</u>
	<u>\$ 4,481,650</u>	<u>\$ 722,965</u>	<u>\$ 459,583</u>	<u>\$ 5,630,435</u>	<u>\$ 11,294,633</u>

**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

**12. Tangible Capital Assets**

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2018 Net Book Value</u>	<u>2017 Net Book Value</u>
Land	\$ 9,011,828	\$ -	\$ 9,011,828	\$ 9,011,828
Buildings	36,061,694	27,229,934	8,831,760	9,354,144
Vehicles	9,385,024	5,090,106	4,294,918	4,211,035
IT, equipment & furniture	3,993,584	1,835,563	2,158,021	1,219,314
Library	260,440	195,577	64,863	72,421
Natural gas system capital lease	8,186,404	3,742,354	4,444,050	4,677,947
Transportation infrastructure	29,928,848	11,081,150	18,847,698	16,377,302
Parks & cemetery	7,235,757	2,933,647	4,302,110	2,648,853
Water infrastructure	51,627,001	14,127,890	37,499,111	37,361,915
Sewer infrastructure	32,057,977	12,837,408	19,220,569	18,685,643
Storm sewer infrastructure	20,151,308	7,224,363	12,926,945	11,608,454
Hydro generators & substations	21,050,645	7,392,638	13,658,007	13,948,166
Hydro infrastructure	33,080,560	7,793,908	25,286,652	23,848,256
Assets under construction	721,139	-	721,139	1,308,970
	<u>\$262,752,209</u>	<u>\$101,484,538</u>	<u>\$161,267,671</u>	<u>\$154,334,248</u>

See schedule of consolidated tangible capital assets for more information.

**13. Inventory**

Inventories recognized in the statement of financial position are comprised of:

	<u>2018</u>	<u>2017</u>
General, Water, Sewer Transit and Garage supplies	\$ 349,860	\$ 376,711
Fuel	46,772	35,556
Hydro operating supplies	835,045	909,594
	<u>\$ 1,231,677</u>	<u>\$ 1,321,861</u>

**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

14. **Accumulated Surplus**

	<u>2018</u>	<u>2017</u>
<b>Reserves set aside by Council</b>		
Capital projects	\$ 2,291,437	\$ 1,616,896
Community works fund	1,640,770	1,260,448
Equipment replacement	3,688,032	3,476,483
Future power purchase	1,106,571	1,079,908
Nelson municipal library	19,653	19,292
Nelson Hydro capital	6,359,648	4,853,717
Sewer utility capital	4,323,239	4,442,291
Waterfront development	30,183	29,537
Water licence	1,432,198	2,097,387
Water utility capital	<u>5,440,596</u>	<u>4,639,080</u>
	26,332,327	23,515,039
<b>Statutory reserves</b>		
Land sales	141,366	138,399
Off street parking	10,007	9,793
Parks acquisition	43,744	111,308
Tax sale	<u>22,979</u>	<u>22,487</u>
<b>Total reserves</b>	<u>26,550,423</u>	<u>23,797,026</u>
<b>Surplus set aside by Council</b>		
Airport	240,470	220,470
Art in public places	7,968	13,995
Bridge	359,789	319,789
Building reserve	949,170	540,000
Economic development	225,710	125,710
Downtown & waterfront	94,860	27,870
Fortis	640,286	683,173
Insurance	370,051	363,245
Legal	20,000	20,000
Parking	7,578	7,578
Recycling reserve	103,340	103,340
911	69,089	59,089
10th street	<u>152,285</u>	<u>131,481</u>
	3,240,596	2,615,740
<b>Unappropriated surplus</b>	<u>2,444,542</u>	<u>2,387,600</u>
<b>Total surplus</b>	<u>5,685,138</u>	<u>5,003,340</u>
<b>Invested in capital assets</b>	<u>149,298,918</u>	<u>141,382,836</u>
<b>Total Accumulated Surplus</b>	<u>\$181,534,479</u>	<u>\$170,183,202</u>

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**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

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**15. Trust Funds**

The Cemetery Care, Cemetery Replacement, Justice McDonald, Better Gardens and Spurway Estate Trust Funds are not reported in these financial statements. The following is a summary of Trust Fund transactions for the year:

	<u>2018</u>	<u>2017</u>
Balances, beginning of year	\$ 971,257	\$ 965,584
Contributions received	13,555	8,889
Interest earned	<u>19,653</u>	<u>9,784</u>
	1,004,465	984,257
Expenses and transfers	<u>(15,000)</u>	<u>(13,000)</u>
Balances, end of year	<u>\$ 989,465</u>	<u>\$ 971,257</u>

**16. Taxes Levied For Other Paid Authorities**

In addition to taxes levied for municipal purposes, the City is legally obligated to collect and remit taxes levied for the following authorities. These collections and remittances are not recorded as revenue and expenses.

	<u>2018</u>	<u>2017</u>
Provincial Government - School taxes	\$ 8,568,817	\$ 8,446,697
Regional District of Central Kootenay	4,107,175	4,145,993
West Kootenay Boundary Hospital District	721,113	697,673
British Columbia Assessment Authority	153,195	150,675
Municipal Finance Authority	<u>525</u>	<u>485</u>
	<u>\$ 13,550,825</u>	<u>\$ 13,441,523</u>

**17. Pension Plan**

The City of Nelson and its employees contribute to the Municipal Pension Plan (a jointly trustee pension plan). The board of trustees, representing plan members and employers, is responsible for administering the plan, including investment of the assets and administration of benefits. The plan is a multi-employer defined benefit pension plan. Basic pension benefits provided are based on a formula. As at December 31, 2017, the plan has about 197,000 active members and approximately 95,000 retired members. Active members include approximately 39,000 contributors from local governments.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plan. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent valuation of the Municipal Pension Plans at December 31, 2015, indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged.

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**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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17. **Pension Plan (continued)**

The City of Nelson paid \$1,602,878 (2017 - \$1,539,691) for employer contributions to the plan in fiscal 2018.

The next valuation will be as at December 31, 2018 with results available in 2019.

Employers participating in the Plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

18. **Commitments and Contingencies**

**Regional District Debt**

Regional District debt is under the provisions of the Community Charter of BC a direct, joint and several liability of the District and each member municipality within the District including the City of Nelson.

**Claims for Damages**

In the normal course of a year the City is faced with lawsuits and claims for damages of a diverse nature. The outcome of these claims cannot be reasonably determined at this time.

**Reciprocal Insurance Exchange Agreement**

The City is a subscribed member of the Municipal Insurance Association of British Columbia (The "Exchange") as provided by Section 3.02 of the Insurance Act of British Columbia. The main purpose of the exchange is to pool the risks of liability so as to lessen the impact upon any subscriber. Under the Reciprocal Insurance Exchange agreement, the Municipality is assessed a premium and specific deductible based on population and claims experience. The obligation of the Municipality with respect to the Exchange and/or contracts and obligations entered into by the Exchange on behalf of its subscribers in connection with the Exchange are in every case several and not joint and several. The City irrevocably and unconditionally undertakes and agrees to indemnify and save harmless the other subscribers against liability losses and costs which the other Subscriber may suffer.

19. **Grants**

Grants received during the year were composed of the following government transfers and other:

	2018	2018	2017	2017
	<u>Unconditional</u>	<u>Conditional</u>	<u>Unconditional</u>	<u>Conditional</u>
Federal Government	\$ 155,012	\$ 2,175,249	\$ 154,327	\$ 595,484
Provincial Government	430,338	3,908,794	428,697	1,939,735
Regional / Other	<u>212,941</u>	<u>176,493</u>	<u>201,969</u>	<u>294,431</u>
	<u>\$ 798,291</u>	<u>\$ 6,260,536</u>	<u>\$ 784,993</u>	<u>\$ 2,829,650</u>

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**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

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20. **Segmented Information**

The City is a diversified municipal government institution that provides a wide range of services to its citizens. City Services are provided by departments and their activities are reported in these Service Areas. Departments disclosed in the segmented information, along with the services they provide, are as follows:

**General Government Services**

The Departments and Divisions within General Government Services are responsible for adopting bylaws; adopting administrative policy; levying and collecting taxes and utilities; acquiring, disposing and managing City assets; developing and maintaining information technology systems and applications; ensuring effective financial management and communication; administering City grants; developing an effective labour force; administering collective agreements and payroll; emergency planning; economic development; monitoring and reporting performance; and ensuring that high quality City service standards are met.

**Police & Bylaw Services**

The mandate of Police Services is to keep our community safe by enforcing the law, and by preventing and reducing crime. Bylaw is responsible for parking and other bylaw enforcement, as well as domestic animal control.

**Fire and Rescue Services**

The mandate of the Fire and Rescue Services is to protect life, property and the environment through the provision of emergency response, inspections, code enforcement and public education, ensuring safety for the public.

**Development Services**

Development Services is responsible for preparing land use plans, bylaws and policies for sustainable development of the City, for reviewing and approving new development and building permits and inspections, management of City owned lands, heritage planning and development of the City's official community plan.

**Engineering Services**

Engineering Services is responsible for planning, building, operating and maintaining the City's physical infrastructure including roads and sidewalks, civic buildings and facilities. In addition, the divisions provide services for storm sewer services, solid waste and recycling, cemetery operations, and fleet services.

**Parks, Culture and Recreation Services**

Parks, Culture and Recreation is responsible for providing, facilitating the development of, and maintaining high quality parks, recreation facilities and programs, the youth centre and cultural services.

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**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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20. **Segmented Information** (continued)

**Transit**

Transit is tasked with providing safe, timely and efficient public transit services within the City limits.

**Library**

As a controlled entity the City reports and is responsible for the successful operations of the Nelson Municipal Library.

**Nelson Hydro**

This segment includes all the operating activities related to the generation, distribution and supply of the City's electricity.

**Utility Operations**

The Water Utility operates and distributes over 8 million cubic meters of drinking water annually, and maintains water mains and pump stations. The Sewer and Drainage Utility is responsible for the collection, treatment and disposal of sanitary sewage and drainage, as well as the network of sewer mains and pump stations.

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**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

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**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

20. **Segmented Information** (continued)  
Statement of Operations by Object and Function:

	<u>General Government</u>	<u>Police &amp; Bylaw</u>	<u>Fire Services</u>	<u>Development Services</u>
<b>Revenues</b>				
Taxes	\$10,459,989	\$ -	\$ -	\$ -
Sales of Service	236,202	1,854,062	232,105	9,847
Other revenue from own services	1,520,277	301,589	125	272,240
Investment income	546,702	-	-	-
Grants - unconditional	415,493	110,964	-	-
Grants - conditional	555,065	86,083	45,000	-
Water user fees	-	-	-	-
Sewer user fees	-	-	-	-
Transit user fees	-	-	-	-
Nelson Hydro sales	-	-	-	-
	<u>13,733,728</u>	<u>2,352,698</u>	<u>277,230</u>	<u>282,087</u>
<b>Expenditures</b>				
Wages and benefits	1,795,310	4,183,263	1,593,962	603,767
Supplies and services	1,298,075	424,081	417,386	119,820
Interest and other debt charges	409,510	-	-	-
Amortization	1,439,699	44,139	105,904	-
Loss on disposal of assets	-	-	-	-
	<u>4,942,594</u>	<u>4,651,483</u>	<u>2,117,252</u>	<u>723,587</u>
<b>Annual Surplus (Deficit)</b>	<u>\$ 8,791,134</u>	<u>\$(2,298,785)</u>	<u>\$(1,840,022)</u>	<u>\$ (441,500)</u>

<u>Engineering Services</u>	<u>Parks Culture &amp; Recreation</u>	<u>Transit</u>	<u>Library</u>	<u>Nelson Hydro</u>	<u>Utilities</u>	<u>2018 Total</u>
\$ 60,765	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,520,754
703,764	623,663	-	27,343	-	-	3,686,986
77,389	45,807	3,453	40,329	830,355	517,921	3,609,485
-	-	-	3,644	185,712	237,640	973,698
-	-	-	271,834	-	-	798,291
3,415,092	305,165	1,101,673	35,392	1,500	715,566	6,260,536
-	-	-	-	-	3,543,563	3,543,563
-	-	-	-	-	3,037,346	3,037,346
-	-	286,702	-	-	-	286,702
-	-	-	-	<u>18,509,343</u>	-	<u>18,509,343</u>
<u>4,257,010</u>	<u>974,635</u>	<u>1,391,828</u>	<u>378,542</u>	<u>19,526,910</u>	<u>8,052,036</u>	<u>51,226,704</u>
1,674,281	994,884	786,983	695,027	2,160,594	1,655,220	16,143,291
1,813,682	1,012,656	891,100	209,839	9,266,960	1,495,011	16,948,610
51,620	-	-	-	247,500	88,525	797,155
1,584,802	253,289	-	-	1,082,146	1,276,059	5,786,038
<u>111,325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,960</u>	<u>15,048</u>	<u>200,333</u>
<u>5,235,710</u>	<u>2,260,829</u>	<u>1,678,083</u>	<u>904,866</u>	<u>12,831,160</u>	<u>4,529,863</u>	<u>39,875,427</u>
<u>\$ (978,700)</u>	<u>\$(1,286,194)</u>	<u>\$ (286,255)</u>	<u>\$ (526,324)</u>	<u>\$ 6,695,750</u>	<u>\$ 3,522,173</u>	<u>\$ 11,351,277</u>

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**THE CORPORATION OF THE CITY OF NELSON**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2018

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21. **Budget Data**

The reconciliation of the approved budget for the current year to the budget figures reported in these consolidated financial statement is as follows:

	<u>2018</u>
Budget surplus per Consolidated Statement of Operations	\$ 10,411,807
Less: Capital expenditures	19,997,714
Debt principal repayments	897,362
Budgeted transfers to reserves	3,004,166
Add: Budgeted transfers from surplus and reserves	8,031,028
Amortization	5,456,407
Debt proceeds	-
Net annual budget	<u>\$ -</u>

**THE CORPORATION OF THE CITY OF NELSON**  
**SCHEDULE A - CONSOLIDATED STATEMENT OF TANGIBLE CAPITAL ASSETS**

For the Year Ended December 31, 2018

Tangible Capital Assets	Additions & reallocation of assets under Construction		Disposals	Closing Balance	Accumulated Amortization		Reduction on Disposals	Accumulated Amortization		Net Carrying Amount End of year
	Opening Balance	Construction			Opening balance	Expense		Closing Balance	Balance	
Land	\$ 9,011,828	\$ -	\$ -	\$ 9,011,828	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,011,828
Buildings	35,714,384	478,025	(130,715)	36,061,694	26,360,240	972,980	(103,286)	27,229,934	8,831,760	8,831,760
Vehicles	8,965,714	755,749	(336,439)	9,385,024	4,754,679	586,150	(250,723)	5,090,106	4,294,918	4,294,918
IT, equipment & furniture	2,805,754	1,203,203	(15,373)	3,993,584	1,586,440	264,496	(15,373)	1,835,563	2,158,021	2,158,021
Library	263,516	-	(3,076)	260,440	191,095	7,558	(3,076)	195,577	64,863	64,863
Natural gas system capital lease	8,186,404	-	-	8,186,404	3,508,457	233,897	-	3,742,354	4,444,050	4,444,050
Transportation infrastructure	26,681,028	3,367,073	(119,253)	29,928,848	10,303,726	841,966	(64,542)	11,081,150	18,847,698	18,847,698
Parks and cemetery	5,329,211	1,906,546	-	7,235,757	2,680,358	253,289	-	2,933,647	4,302,110	4,302,110
Water infrastructure	50,831,144	845,041	(49,184)	51,627,001	13,469,229	699,610	(40,949)	14,127,890	37,499,111	37,499,111
Sewer infrastructure	30,963,591	1,118,189	(23,803)	32,057,977	12,277,948	576,450	(16,990)	12,837,408	19,220,569	19,220,569
Storm sewer infrastructure	18,620,317	1,641,271	(110,280)	20,151,308	7,011,863	267,496	(54,996)	7,224,363	12,926,945	12,926,945
Hydro generators & substations	20,990,194	145,363	(84,912)	21,050,645	7,042,028	432,118	(81,508)	7,392,638	13,658,007	13,658,007
Hydro infrastructure	31,057,514	2,158,980	(135,934)	33,080,560	7,209,258	650,028	(65,378)	7,793,908	25,286,652	25,286,652
Assets under construction	1,308,970	600,133	(1,187,964)	721,139	-	-	-	-	721,139	721,139
<b>Total</b>	<b>\$ 250,729,569</b>	<b>\$ 14,219,573</b>	<b>\$ (2,196,933)</b>	<b>\$ 262,752,209</b>	<b>\$ 96,395,321</b>	<b>\$ 5,786,038</b>	<b>\$ (696,821)</b>	<b>\$ 101,484,538</b>	<b>\$ 161,267,671</b>	<b>\$ 161,267,671</b>

Appendix B:

Utility - Operating Budget

BCUC IR 1 - IR 11.3 Attachment

Function Description	2015-2019 Utility						Application		Supplementary Filing		BCUC IR 1 - 11.3 Filing	
	2015 Utility Act. (\$)	2016 Utility Act. (\$)	2017 Utility Act. (\$)	2018 Utility Act. (Prelim) (\$)	2018 Utility Bud (\$)	2019 Utility Bud (\$)	2018 - 2019 (\$)	2018 - 2019 (%)	2019 No R.C. (\$)	R.C. - 2019 Budget (\$)	2019 No R.C. (\$)	R.C. - 2019 Budget (\$)
<b>Expense</b>												
<b>Debt Serv.</b>												
Electrical Debt Charges	\$499,363	\$499,363	\$499,363	\$499,363	\$499,364	\$499,364	\$0	0.00%	\$499,364	\$0	\$499,364	\$0
<b>Debt Serv. Total</b>	<b>\$499,363</b>	<b>\$499,363</b>	<b>\$499,363</b>	<b>\$499,363</b>	<b>\$499,364</b>	<b>\$499,364</b>	<b>\$0</b>	<b>0.00%</b>	<b>\$499,364</b>	<b>\$0</b>	<b>\$499,364</b>	<b>\$0</b>
<b>Op Exp.</b>												
Allow-Small Acct Write-off	\$2,131	\$1,598	\$2,326	\$147	\$10,300	\$2,500	-\$7,800	-75.73%	\$2,500	\$0	\$2,500	\$0
Distribution	\$2,022,418	\$1,243,383	\$1,222,992	\$1,316,051	\$1,377,963	\$1,582,698	\$204,735	14.86%	\$1,582,698	\$0	\$1,582,698	\$0
District Heating Operations	\$5,557	\$9,083	\$11,970	\$12,233	\$10,500	\$10,815	\$315	3.00%	\$10,815	\$0	\$10,815	\$0
EcoSave	\$64,724	\$61,150	\$102,772	\$130,122	\$87,000	\$80,815	-\$6,185	-7.11%	\$80,815	\$0	\$80,815	\$0
Electrical Administration	\$1,033,786	\$1,020,703	\$1,142,350	\$1,252,940	\$1,137,173	\$1,196,760	\$59,587	5.24%	\$1,196,760	\$0	\$1,196,760	\$0
Electrical Billing & Collections	\$677,510	\$695,081	\$695,616	\$708,840	\$725,078	\$747,957	\$22,879	3.16%	\$747,957	\$0	\$747,957	\$0
Electrical Debt Charges	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	\$0	\$0
Electrical Supply	\$521,779	\$467,793	\$445,265	\$520,258	\$457,107	\$508,012	\$50,905	11.14%	\$508,012	\$0	\$508,012	\$0
Electrical Transmission	\$118,972	\$8,747	\$22,865	\$63,554	\$102,215	\$105,198	\$2,983	2.92%	\$105,198	\$0	\$105,198	\$0
Metering	\$93,065	\$88,428	\$78,504	\$92,405	\$100,567	\$102,818	\$2,251	2.24%	\$102,818	\$0	\$102,818	\$0
Operation	\$607,008	\$511,963	\$530,542	\$543,934	\$524,626	\$523,077	-\$1,550	-0.30%	\$523,077	\$0	\$523,077	\$0
Share of General Administration	\$102,514	\$114,145	\$115,728	\$118,432	\$121,982	\$124,421	\$2,440	2.00%	\$124,421	\$0	\$124,421	\$0
Substations	\$114,263	\$149,475	\$189,528	\$160,956	\$86,673	\$89,130	\$2,458	2.84%	\$89,130	\$0	\$89,130	\$0
<b>Op Exp. Total</b>	<b>\$5,363,728</b>	<b>\$4,371,549</b>	<b>\$4,560,459</b>	<b>\$4,919,872</b>	<b>\$4,741,184</b>	<b>\$5,074,202</b>	<b>\$333,018</b>	<b>7.02%</b>	<b>\$5,074,202</b>	<b>\$0</b>	<b>\$5,074,202</b>	<b>\$0</b>
<b>Power Purch.</b>												
Power Purch.	\$5,925,459	\$5,839,284	\$7,109,904	\$6,143,561	\$6,662,610	\$6,698,722	\$36,112	0.54%	\$6,698,722	\$0	\$6,698,722	\$0
<b>Power Purch. Total</b>	<b>\$5,925,459</b>	<b>\$5,839,284</b>	<b>\$7,109,904</b>	<b>\$6,143,561</b>	<b>\$6,662,610</b>	<b>\$6,698,722</b>	<b>\$36,112</b>	<b>0.54%</b>	<b>\$6,698,722</b>	<b>\$0</b>	<b>\$6,698,722</b>	<b>\$0</b>
<b>Transfers</b>												
Transfer - Dividend Pymt.	\$2,600,000	\$2,860,000	\$2,700,000	\$2,754,000	\$2,754,000	\$2,836,000	\$82,000	2.98%	\$2,836,000	\$0	\$2,836,000	\$0
Transfer - Major Capital Resv	\$1,419,445	\$3,152,000	\$3,892,283	\$0	\$2,486,307	\$2,877,100	\$390,793	15.72%	\$2,728,831	-\$148,269	\$2,616,282	-\$260,818
Transfer - Water Licence Reserve	\$551,654	\$568,868	\$658,266	\$658,266	\$658,266	\$658,266	\$0	0.00%	\$658,266	\$0	\$658,266	\$0
Capital Fund Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	\$0	\$0
Contribution to Community Com	\$90,000	\$90,000	\$90,000	\$0	\$90,000	\$90,000	\$0	0.00%	\$90,000	\$0	\$90,000	\$0
Transfer - Rural ROE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	\$0	\$0
<b>Transfers Total</b>	<b>\$4,661,099</b>	<b>\$6,670,868</b>	<b>\$7,340,549</b>	<b>\$3,412,266</b>	<b>\$5,988,573</b>	<b>\$6,461,366</b>	<b>\$472,793</b>	<b>7.89%</b>	<b>\$6,313,097</b>	<b>-\$148,269</b>	<b>\$6,200,548</b>	<b>-\$260,818</b>
<b>Expense Total</b>	<b>\$16,449,649</b>	<b>\$17,381,064</b>	<b>\$19,510,274</b>	<b>\$14,975,062</b>	<b>\$17,891,731</b>	<b>\$18,733,654</b>	<b>\$841,923</b>	<b>4.71%</b>	<b>\$18,585,385</b>	<b>-\$148,269</b>	<b>\$18,472,836</b>	<b>-\$260,818</b>
<b>Revenue</b>												
<b>Revenue - Other</b>												
Capital - System Upgrade	-\$28,260	-\$27,810	-\$27,912	\$0	-\$30,000	-\$30,900	-\$900	3.00%	-\$30,900	\$0	-\$30,900	\$0
District heating Revenues	-\$6,549	-\$10,219	-\$13,466	-\$13,756	-\$10,000	-\$12,200	-\$2,200	22.00%	-\$12,200	\$0	-\$12,200	\$0
EcoSave	-\$8,323	-\$11,210	-\$9,436	-\$9,012	-\$6,367	-\$6,558	-\$191	3.00%	-\$6,558	\$0	-\$6,558	\$0
Elec Other Revenue of Own Sour	-\$148,295	-\$147,574	-\$218,006	-\$183,593	-\$136,872	-\$139,478	-\$2,606	1.90%	-\$139,478	\$0	-\$139,478	\$0
Electrical Sale of Services	-\$248,033	-\$253,756	-\$264,877	-\$246,290	-\$230,944	-\$237,872	-\$6,928	3.00%	-\$237,872	\$0	-\$237,872	\$0
Export Sales	-\$18,068	-\$143,640	-\$372,769	-\$346,025	-\$73,441	-\$75,645	-\$2,203	3.00%	-\$75,645	\$0	-\$75,645	\$0
<b>Revenue - Other Total</b>	<b>-\$457,529</b>	<b>-\$594,207</b>	<b>-\$906,467</b>	<b>-\$798,677</b>	<b>-\$487,624</b>	<b>-\$502,653</b>	<b>-\$15,029</b>	<b>3.08%</b>	<b>-\$502,653</b>	<b>\$0</b>	<b>-\$502,653</b>	<b>\$0</b>
<b>Revenue - Rates</b>												
Electrical Rates-Taxable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	\$0	\$0
Sale of Service - Tax Demand	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	\$0	\$0
Electrical Rates - Non Taxable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	\$0	\$0
Rural - Commercial	-\$951,303	-\$1,099,005	-\$1,168,836	-\$1,209,200	-\$1,067,874	-\$1,091,687	-\$23,813	2.23%	-\$1,069,526	\$22,161	-\$1,069,526	\$22,161
Rural - Residential	-\$5,577,372	-\$5,633,548	-\$6,516,706	-\$6,155,911	-\$5,900,811	-\$6,180,912	-\$280,101	4.75%	-\$6,055,439	\$125,473	-\$6,055,439	\$125,473
Rural - Streetlight	-\$26,487	-\$30,358	-\$30,457	-\$31,826	-\$30,546	-\$31,342	-\$796	2.60%	-\$30,705	\$636	-\$30,705	\$636
Urban - Commercial	-\$4,392,362	-\$4,758,622	-\$5,065,353	-\$5,381,210	-\$5,031,467	-\$5,171,512	-\$140,045	2.78%	-\$5,171,512	\$0	-\$5,118,245	\$53,267
Urban - Residential	-\$4,726,110	-\$4,910,781	-\$5,142,209	-\$5,226,425	-\$5,022,098	-\$5,395,089	-\$372,991	7.43%	-\$5,395,089	\$0	-\$5,339,520	\$55,569
Urban - Streetlight	-\$75,032	-\$86,153	-\$91,501	-\$93,854	-\$74,836	-\$76,785	-\$1,949	2.60%	-\$76,785	\$0	-\$75,995	\$791
Urban - Municipal	-\$216,206	-\$259,565	-\$338,602	-\$360,007	-\$276,473	-\$283,674	-\$7,201	2.60%	-\$283,674	\$0	-\$280,752	\$2,922
<b>Revenue - Rates Total</b>	<b>-\$15,964,873</b>	<b>-\$16,778,032</b>	<b>-\$18,353,664</b>	<b>-\$18,458,433</b>	<b>-\$17,404,106</b>	<b>-\$18,231,001</b>	<b>-\$826,895</b>	<b>4.75%</b>	<b>-\$18,082,731</b>	<b>\$148,270</b>	<b>-\$17,970,182</b>	<b>\$260,819</b>
<b>Contributions</b>												
EcoSave	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.00%	\$0	\$0	\$0	\$0
<b>Contributions Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00%</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Revenue Total</b>	<b>-\$16,422,401</b>	<b>-\$17,372,239</b>	<b>-\$19,260,130</b>	<b>-\$19,257,110</b>	<b>-\$17,891,730</b>	<b>-\$18,733,654</b>	<b>-\$841,924</b>	<b>4.71%</b>	<b>-\$18,585,384</b>	<b>\$148,270</b>	<b>-\$18,472,835</b>	<b>\$260,819</b>
<b>Grand Total</b>	<b>\$27,248</b>	<b>\$8,825</b>	<b>\$250,144</b>	<b>-\$4,282,047</b>	<b>\$0</b>	<b>-\$1</b>			<b>\$0</b>	<b>\$1</b>	<b>\$0</b>	<b>\$1</b>

Filing	Rural R.C. Apr 01	Urban R.C. Apr 01		Urban Residential	Rural Residential	Urban Commercial	Rural Commercial	Urban Municipal	Urban Streetlight	Rural Streetlight	Total
			Customer Count	5,055	4,209	901	307	86	23	33	\$10,614
			Metered Energy (kWh)	46,723,686	57,147,955	43,768,804	9,129,137	4,906,857			\$161,676,439
Mar 08, 2019 Application	2.94%	1.50%	Revenue (\$)	\$5,395,089	\$6,180,912	\$5,171,512	\$1,091,687	\$283,674	\$76,785	\$31,342	\$18,231,001
Supp Info.	0.00%	1.50%	Revenue (\$)	\$5,395,089	\$6,055,439	\$5,171,512	\$1,069,526	\$283,674	\$76,785	\$30,705	\$18,082,730
BCUC IR 1 11.3.1	0.00%	0.00%	Revenue (\$)	\$5,339,520	\$6,055,439	\$5,118,245	\$1,069,526	\$280,752	\$75,995	\$30,705	\$17,970,182

\*This table contains updated information from original submitted March 8, 2019.

BCUC IR 1 - IR 11.4 Attachment

	Application Page 8 information (December 2018)			Appendix B updated information
	Rural	Urban	Nelson Hydro 2019	Nelson Hydro 2019
Debt Serv. Total	\$169,660	\$329,704	\$499,364	\$499,364
Op Exp. Total	\$2,293,016	\$2,803,645	\$5,096,661	\$5,074,202
Power Purchase Total	\$5,032,846	\$1,667,154	\$6,700,000	\$6,698,722
Transfers				
Transfer - Dividend Pymt.		\$2,837,000	\$2,837,000	\$2,836,000
Transfer - Major Capital Reserve		\$3,000,000	\$3,000,000	\$2,877,100
transfer - Water License Reserve		\$658,000	\$658,000	\$658,266
Contribution to Community Complex		\$90,000	\$90,000	\$90,000
<b>Transfers total</b>	\$0	\$6,585,000	\$6,585,000	\$6,461,366
Expense total	\$7,495,522	\$11,385,503	\$18,881,025	\$18,733,654
Revenue - Other total	-\$159,909	-\$340,091	-\$500,000	-\$502,653
Revenue - Rates Fcst. (pre rate change)	-\$7,171,071	-\$11,075,929	-\$18,247,000	-\$17,970,182
Revenue total	-\$7,330,980	-\$11,416,020	-\$18,747,000	-\$18,472,835
2018 Dividend Adjustment	-\$19,220		-\$19,220	-\$19,220
Grand Total Shortfall (Surplus)	\$145,322	-\$30,517	\$114,805	\$241,598
Revenue from Rates Rqd.	-\$7,316,393	-\$11,045,412	-\$18,361,805	-\$18,211,780
Revenue from Rates Change Rqd.	2.03%	-0.28%	0.63%	1.34%
Rate Change Rqd. (Apr 01)	2.94%	-0.40%	0.91%	1.95%

Notes:

1. The table is prepared based on information used for table on Page 8 of the application that was developed in December 2018 [consistent with the data that was used for rate setting with City of Nelson Council].
2. The rate calculation for Urban service area was -0.40%, however, the City Council agreed and decided to implement a rate smoothing option by approving the 2019 rate change 1.5% so potential future rate increases are smoothed.

## Appendix B:

## Nelson Hydro 2019 Capital Budget

## BCUC IR 1 - IR 20.3 Attachment

Project Description	WO Area	WO# Description	Primary Purpose	Service Area	Expected In Service Date	Draft 2019 Budget
Bonnington Falls Upgrades						
	Power Plant					
		Power Plant Intake Repairs - Achways	Safety, Reliability	Urban	Q3 2020	\$198,000
		Power Plant Intake Repairs - GO to Dam	Safety, Reliability	Urban	Q3 2020	\$500,000
		Power Plant Wood Deck Replace	Safety, Reliability	Urban	Q3 2020	\$75,000
<b>Bonnington Falls Upgrades Sum</b>						<b>\$773,000</b>
Distribution Upgrades						
	City					
		Pole Replacement - City	Reliability	Urban	Q3 2019	\$205,800
		Downtown Loop Feed	Reliability	Urban	Q2 2019	\$50,000
	North Shore					
		Pole Replacement - N/S	Reliability	Rural	Q3 2019	\$205,800
		F51/52 Bridge Duct	Reliability	Rural	Q3 2019	\$800,000
		Cutouts & Arrestors - Replace Porcelain with Poly	Safety	Rural	Q4 2019	\$82,400
		NS Volt-Var Optimization	Efficiency	Rural	Q4 2019	\$95,000
	South Shore					
		Pole Replacement - SS	Reliability	Rural	Q3 2019	\$110,625
	Utility Wide					
		FBC Crossings	Safety	Rural & Urban	Q3 2019	\$51,400
<b>Distribution Upgrades Sum</b>						<b>\$1,601,025</b>
New Customer Services						
	City					
		New Services - Flat Rate	Customer Service	Urban	Ongoing	\$133,450
	North Shore					
		New Services - Flat Rate	Customer Service	Rural	Ongoing	\$107,750
	South Shore					
		New Services - Flat Rate	Customer Service	Rural	Ongoing	\$66,650
<b>New Customer Services Sum</b>						<b>\$307,850</b>
Substation Upgrades						
	City					
		Mill St Sub Upgrade	Reliability	Urban & Rural	Q4 2020	\$50,000

## Appendix B:

## Nelson Hydro 2019 Capital Budget

Project Description	WO Area	WO# Description	Primary Purpose	Service Area	Expected In Service Date	Draft 2019 Budget
	North Shore					
		Lakeside Terminal Switchgear	Reliability	Rural	Q3 2019	\$100,000
		Six Mile Sub Voltage Regulator	Reliability	Rural	Q3 2019	\$60,000
<b>Substation Upgrades Sum</b>						<b>\$210,000</b>
	Transmission Upgrades					
	Transmission					
		60L2 Rebuild	Reliability	Urban	Q2 2019	\$105,000
<b>Transmission Upgrades Sum</b>						<b>\$105,000</b>
	System General					
	Revenue - Rates					
		CIS E-Billing Module	Customer Service	Whole Utility	Q1 2020	\$400,000
		Meters Replacement	Customer Service	Whole Utility	G4 2019	\$40,000
	Studies					
		Hydro Generation Studies	New Business	Urban	Q4 2019	\$30,000
<b>System General Sum</b>						<b>\$470,000</b>
	New Energy					
	Studies					
		District Heating System Prelim Est.	New Business	Urban	Q4 2019	\$40,000
		Co-Gen System	New Business	Urban	Q4 2019	\$25,000
<b>New Energy Sum</b>						<b>\$65,000</b>
<b>Grand Total</b>						<b>\$3,531,875</b>