From: BCUC <commission.secretary@bcuc.com>
Sent: May 23, 2019 9:21 AM
To: Commission Secretary BCUC:EX
Subject: Letter of Comment
Attachments: Submission Nelson Hydro 2019 Supplemental.docx.pdf

Date Submitted: May 23, 2019

Proceeding name: Nelson Hydro 2019 Rural Rate Application

Are you currently registered as an intervener or interested party: No

Name (first and last): Jay Doyle

City: Nelson

Province: British Columbia

Email: [redacted]

Phone number: [redacted]

Comment:
I am a Rural customer of Nelson Hydro. The proposed rate increase is not warranted and should be rejected by the BCUC I have attached comments in support of this conclusion

23rd May 2019

To whom it may concern,

Nelson Hydro rate increase for Rural customers in 2019

I have now had the opportunity to examine the Supplemental Information provided by Nelson Hydro in response to the BCUC queries dated 29th April 2019 plus examined the Financial Statements for 2018. The documents are posted on the BCUC website and are under cover of correspondence dated 16th May 2019.

Nothing in the documents provided changes my view that this is a cynical process of "window dressing" a costing process to increase the cost impost on the Rural, and to some extent the Urban, customers. The Cost of Service Report is fundamentally flawed and seems to have but one purpose – to increase costs allocated to Rural customers and thus justify an increase (and further increases) in rates.

I also note that more information is available regarding the 2018 performance. A $0.8 million surplus after all Expenses, Transfers and Dividends seems to be the published result (I previously estimated a similar figure). There is no indication how this surplus would be utilised. Even the Budget estimate shows a surplus of $0.5 million yet the cost of the rate increase is less than this outcome. Clearly no rate increase is warranted for any customer.

My previous observations and conclusions stand. I request the BCUC reject the Application for an increase for Rural customers. Further I suggest the BCUC consider how this quality of information can be received from a public entity.

Yours,

Jay

Nelson Hydro Rural Rate Application

Further comments

Results for 2018

The performance for 2018 seems to be as follows:

Result for 2018

	Actual		Based on Sales		Budget	
Sales	**$ 18,509**		**100%**		**$ 18,458**	
Other	**$ 1,016**		**5%**		**$ 799**	
		$ 19,525		**105%**		**$ 19,257**
Expenses	**$ 6,169**		**33%**		**$ 6,244**	
Power	**$ 6,662**		**36%**		**$ 6,662**	
Water	**$ 658**		**4%**		**$ 658**	
		$ 13,489		**73%**		**$ 13,564**
Gross		**$ 6,036**		**33%**		**$ 5,693**
Dividend	**$ 2,754**		**15%**		**$ 2,754**	
Reserves	**$ 2,486**		**13%**		**$ 2,486**	
		$ 5,240		**28%**		**$ 5,240**
Result		**$ 796**		**4%**		**$ 453**

Actual from Financial 2018
Adjusted for Water, Dividend and Reserves

Budget from App B
Adjusted

The performance in 2018 seems to be a major windfall profit for Nelson Hydro of nearly $0.8 million after Dividends and Transfers to Reserves. No information regarding this surplus has been made available but it was mentioned in a previous comments document submitted to BCUC.

The impact of Rate increase requested by Nelson Hydro is as follows:

Rural $147k Urban $111k Total $258k

Given this result there is no need for consideration of any Rate increase in 2019 – indeed it suggests a reduction!

What does happen to the surplus – is it just subsumed as an additional and undeclared Dividend?

Comments regarding Nelson Hydro response to queries from the BCUC:

Supplemental Information dated 16th May 2019 was examined to determine if would impact any of the previous conclusions. This work was conducted during the week ending 24th May 2019 and is based on the information provided by Nelson Hydro.

References are to the document dated 16th May 2019 (Supplemental 2).

2.1 It is unclear if the adjustment described by Nelson Hydro refers to the customer base in total or to individual customers. Any customer who has been overcharged would expect a full refund and any customer undercharged should expect to pay the required difference. The approach suggested by Nelson Hydro seems to suggest a rate is calculated for the whole customer group then applied. As a Group the correct amount would be recovered/refunded but individual customers would either be over paying or under paying. It would appear that the system is not capable of automatically calculating corrections.

2.2 The concept of Materiality is used by External Auditors to manage Audit Risk and to assist them in the planning of Audit testing. To apply it to the concept of "significant" in respect to Nelson Hydro operations is suspect. The level of materiality of 0.43% is based on several factors but for the purpose of these comments it is assumed to be $220,275 (that is 0.43% times Corporation of City of Nelson Income of $51,226,704). However the response determines "significant" as $75,000. Whilst the lower value is to the advantage of the customers it is clear that the billing system is unable to cope with any changes without significant manual intervention and the treatment of the customers as a Group rather than individuals is inappropriate.

3.1 The submission was late for no good reason and the failure to comply with the BCUC instruction is not explained. Whilst unexpected (really?) the additional capital expenditure is funded by the current (and adequate) Capital Reserve and should have no impact on 2019 Rates. Additionally a deferral of expenditure assists outlays in the current year. In the final paragraph it is clear than the Rate change information was available but the Application was just submitted three months late.

3.3 More detail is provided regarding the reason for the late Application. No detail is provided regarding any change to the supporting information. The events described are driven by Nelson Hydro and could have been managed in order to deliver an Application that is on time. Nothing in the response supports the notion that a late Application was reasonable as the information available in November 2018 regarding the setting of rates did not change between November and March.

4.1 It now appears that the required rate change is 3.0% not 2.94% based on the information provided by Nelson Hydro. There is a minor error in the Application (it is understated). This is an example of the inconsistent data within the different documents provided by Nelson Hydro and does little to enhance their credibility given they are the professionals who control the supporting systems where all the financial and power usage information is derived.

4.2 Nelson Hydro explain how the errors were permitted to be included within the documents provided to the BCUC (and the public). At best their explanation can be characterized as poor attention to detail within important documents. Given the impact of these decisions on customers there is an expectation that the Application and supporting documentation should be congruent and "fit for

purpose". Instead they seem to be riddled with "minor" inconsistencies that reflect poorly on the organisation submitting them for consideration within a quasi-judicial process.

5.2 Clearly Nelson Hydro cannot provide reasonable estimates of income and expenditure until 5 months after the year end. All the billing is completed within two months of year end and all expenses should be available within a similar period. The purpose of budgetary management is to accurately forecast performance for timely management decision making. A delay of five months seems to fail that simple objective given that all other utility companies seem to manage to provide accurate forecasts acceptable to the BCUC.

5.4 Distribution expenses are shown as underspent in Appendix B by $187,471 but now Nelson Hydro report that the actual result was a slight overspend. There is no explanation where the additional expenditure was hiding or even why its existence was not detected earlier.

5.6 Nelson Hydro mention that the information required for 2018 (in May 2019) has still not been finalized despite the publication of the Financial Statements. This relates to Administrative expenses so it is not a complex area of activity and should have been easy to determine.

6.1 The response is interesting as it deals with Depreciation (Amortization). Each year there is an allocation to the Capital Reserve from earnings. There is little debt and the Capital spending is mostly from the Capital Reserve. Thus customers pay for the Capital spend in advance then get charged each year for the Depreciation those assets generate – that is twice! The Response confirms that Depreciation is not included in Appendix A but it was included in the Cost of Service analysis (Report).

6.2 Confirms that Depreciation has not been included in the rate calculations for 2019.

9.1 It would be helpful if the Nelson Hydro documents were accurate or at least consistent.

9.2 This a nonsense statement that is not supported by even a cursory examination of reality. It is based on the allocation of expensive power to Rural customers via a flawed Cost of Service Report. Rural customers provide a satisfactory return that covers all expenses, transfer to the Capital Reserve and contributes to the Dividend to the City of Nelson. It is within the RCC of 90% to 105%. The utility makes adequate profits from its operations that cover all its expenses, capital commitments and a Dividend to the City of Nelson and a profit that ends up in General Reserves and has done so for several years that have been examined.

10.1 The Response is based on the flawed Cost of Service Report.

10.2 The flawed Cost of Service Report is central to the costing process embedded within the Application and it is an act of duplicity to suggest otherwise.

11.1 This is the first time that some of the inner workings of the Cost of Service Report are revealed however it generates more questions than answers. For example Energy/Demand Delivery are not terms used in the Cost of Service Report (Distribution?) nor is Linear:

- Energy Delivery 40% Rural & 60% Urban The split in the Cost of Service Report seems to be weighted on Rural customers ($1,056k) with Urban only $413k but how can this be?

- Energy Production 12% Rural & 88% Urban but according to the Cost of Service Report no generated power is used by Rural customers. How can Rural customers be charged for the cost of generating power they did not consume? If they did consume generated power then why were they only charged for the cost of purchased power?
- Energy Purchase, Demand Purchase and POD Purchase – in the Cost of Service Report the allocation is 75% Rural and 25% Urban and is based on a flawed concept. However it still seems different from the information provided in Supplemental 2.

11.11 There is no Appendix A attached to the document – "Nelson Hydro Operating Income for 2015 through 2019, $000". Appendix B seems to provide this information. The major distortion is the allocation of Power costs as previously mentioned.

11.12 The response only mentions minor issues and completely avoids the "elephant in the room" namely the allocation of Power costs between the classes of customers.

11.2 Two lines is not the requested "explanation in detail".

12.2 The response is based on a flawed Cost of Service Report. The result does not bear any relationship with reality as it allocates so much purchased power to Rural customers.

12.3 The guidelines should have been completed before the employees mentioned left Nelson Hydro – clearly the requests of the BCUC are not considered a priority for the organisation.

13.1 The response is based on a flawed Cost of Service Report regarding the allocation of power costs.

13.4 to 14.4 Both BC Hydro and Fortis BC are "for profit" entities providing utility services. Nelson Hydro is a department within a Municipality. Clearly Nelson Hydro should be able to cover all its expenses but it has no shareholders as such. If expenses went up rapidly they would be passed on to customers and if they went down the benefits would also be passed on. It is in the nature of Utility operations that they charge a fair price for the products they market.

In Nelson Hydro Working Capital is generated from ongoing operations and funds set aside in previous years and held available for use. The Capital Reserve is an example of funds set aside and information provided shows that it is comprised of liquid assets available at no cost to Nelson Hydro. The amount of debt is small and has been used to acquire capital assets over time. Payment of interest and principal are included in the calculations.

So what are the risks that Nelson Hydro anticipate? As a monopoly they are permitted to cover their expenses including payment for owners risk subject to the oversight of the BCUC with perhaps a time delay. The costs of operation are covered and so is the allocation to the Capital Reserve. The balance consists of a Dividend plus any residual surplus (hard to find given the quality of the statements).

The risk is covered by the City but the City exists for its urban population. The Dividend is for their (the urban dwellers) use and benefit. Rural customers do not received any direct benefits from the City. Clearly the current situation is that Rural customers cover Expenses and the transfer to Capital Reserves with a contribution towards the Dividend. They fit within the RCC range of 90% to 105%.

It is reasonable that Rural customers contribute to the Dividend but urban customers should cover the Dividend as they are the ultimate beneficiaries.

So how should the Return on Equity be calculated and what happens to any operating surplus generated? Clearly both end up with the City but there should be constraint otherwise customers will be paying too much for the services provided. Based on Appendix B the rate of return should be above 10% but below 15% of Gross Income. Currently the return for the City is 19% of Sales Income (not including Water Sales). The City is taking too much from Nelson Hydro and is able to do so because the power bills for customers are too high.

15.2 Forward rate pressure of 2.75% seems to be based on inflation of 2% plus what?