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November 29th, 2019

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

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

RE: Nelson Hydro –BCUC Order G-274-19 Compliance Filing

On November 7, 2019 the British Columbia Utilities Commission issued its Order G-274-19 directing Nelson Hydro to submit a compliance filing to the Commission within 30 days in accordance with the directions set out in the Reasons for Decision. Pursuant to this directive, Nelson Hydro encloses its Compliance Filing. The Compliance Filing includes as Attachment 1 the tariff pages reflecting permanent 2019 rates for all Rural customer classes (City of Nelson Electrical Utility Amendment Bylaw No. 3478, 2019).

The Compliance Filing also addresses the fact that Nelson Hydro is not filing a 2020 Rate Application as no rate increase is proposed for 2020. Finally, please note that with regard to the revenue variances for 2019 and the 2018 dividend refund, Nelson Hydro is considering its available refund options with a billing software company and will file the proposed refund mechanism on or before December 6, 2019 as a supplement to this filing.

Please do not hesitate to contact us with any questions.

Respectfully submitted,

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

Gabriel Bouvet-Boisclair
Deputy Corporate Officer, City of Nelson

On behalf of Alex Love, General Manager, Nelson Hydro

cc: Alex Love, General Manager, Nelson Hydro

NELSON HYDRO

BCUC Order G-274-19 – Compliance Filing

Nelson Hydro 2019 Rural Rate Application

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Attachment 1: Rural Service Area Final Rates effective December 1, 2019

1.0 OVERVIEW

On March 8, 2019, Nelson Hydro filed an application with the British Columbia Utilities Commission (“BCUC”) for approval of a 2.94% general rate increase effective April 1, 2019 to all customer classes in Rural service area (Application). The BCUC by its Order G-60-19 on March 15, 2019 approved 2.94% rate increase effective April 1, 2019 for Rural customer classes on an interim and refundable basis.

The BCUC established regulatory timetables by Order G-70-19 dated March 26, 2019, and further regulatory timetables by Orders G-111-19 [May 23, 2019], G-142-19 [June 25, 2019] and G-164-19 [July 26, 2019] that included two rounds Information Requests (“IR”) from the BCUC as well as from intervenors, further IRs from the BCUC Panel; final and reply arguments.

Following the processes established, the BCUC issued its Order G-274-19 on November 7, 2019 approving 1.5% general rate increase for all Rural customer classes effective April 1, 2019 on permanent basis with the changes directed in the Reasons for Decision, and directing Nelson Hydro to provide a compliance filing to the BCUC within 30 days in accordance with the directions set out in the Reasons for Decision [Appendix A to BCUC Order G-274-19].

This Compliance Filing sets out for approval of the BCUC the Nelson Hydro revised filings as required by Order G-274-19, along with all related explanations.

2.0 SUMMARY OF NELSON HYDRO RESPONSES TO THE BCUC DIRECTIVES

2.1 RURAL RATES FOR 2019

In section 3.0 of Reasons for Decision of the Order G-274-19, the BCUC approved “for 2019 a permanent rate increase of 1.5 percent for Nelson Hydro’s Rural customers, effective April 1, 2019”. The BCUC also directed that within 30 days of the date of the Reasons for Decision, Nelson Hydro file tariff pages reflecting permanent 2019 rates for all Rural customer classes.

Attachment 1 to this Compliance Filing provides tariff pages reflecting permanent 2019 rates for all Rural customer classes effective April 1, 2019 as directed by the BCUC.

Nelson Hydro acknowledges the BCUC’s assertion in section 3.0 of its Order G-274-19 that the “rate increase is not necessary to recover the forecast expenses anticipated by Nelson Hydro in 2019, the Panel is satisfied that any surplus of revenues over expenses contributed by Rural ratepayers will be retained to the benefit of all Nelson Hydro ratepayers in the Capital Reserve Fund. The Panel reminds Nelson Hydro that it has already been directed to retain any operating surplus or deficit in the Capital Reserve Fund, and that this directive continues to apply.” Nelson Hydro will transfer any surplus or deficiency for 2019, after all actual expenses and transfers, to the Capital Reserve fund.

2.1.1 Interim and Final Rate Revenue Variances for 2019 and 2018 Dividend Refund

In section 3 of Reasons for Decision the BCUC directed that Nelson Hydro to file “the calculations for the adjustment to the 2019 rates for Rural customers resulting from the difference between interim and permanent rates as part of this compliance filing”.

The interim rate increase of 2.94% was approved by the BCUC effective April 1, 2019. The BCUC in its Order G-274-19 approved a final rate increase for 2019 for Rural customer classes at 1.5% effective April 1, 2019.

The BCUC also directed that Nelson Hydro to “refund \$19,222 to its Rural customers on a one-time basis including accrued interest on or before December 31, 2019, and to file as a compliance filing, for review and approval by this Panel before January 15, 2020, the calculations for this one-time adjustment for Rural ratepayers and to confirm the payment of this refund to Rural customers.”

Nelson Hydro is discussing refund options, both the difference between final and interim 2019 rates and 2018 dividend portion, with a billing software company and will file the proposed refund mechanism before December 8, 2019.

2.2 COSTS FOR 2019

2.2.1 Debt Service Costs

Nelson Hydro’s forecast debt service costs for 2019 at \$0.499 million that is composed of principal and interest expenses. The BCUC Order G-274-19 Reasons for Decision, section 2.3.1 notes that the “Panel is satisfied that the debt service expense is reasonable.”

2.2.2 Operating Expenses

Nelson Hydro’s forecast operating expenses for 2019 at \$5.074 million with single largest increase in vegetation management costs that Nelson Hydro is undertaking tree trimming in addition to the normal trim cycles to improve service reliability. The BCUC Order G-274-19 Reasons for Decision, section 2.3.2 notes that the “[b]ased on the evidence provided, the Panel is satisfied with the justification for Nelson Hydro’s applied-for increase in operating costs.”

2.2.3 Power Purchase Costs

Nelson Hydro’s forecast power purchase costs for 2019 at \$6.699 million, reflecting slight increase compared to the 2018 budget. The BCUC Order G-274-19 Reasons for Decision, section 2.3.3 notes that the “[b]ased on the evidence provided, the Panel is satisfied that the forecast of power purchase expense is reasonable.”

2.2.4 Dividend Payment

Nelson Hydro’s forecast dividend payment for 2019 at \$2.836 million. The BCUC Order G-274-19 Reasons for Decision, section 2.3.4 notes that the “[t]he proposed increase of 2.98 percent from 2018 to 2019 is

considerably less significant when one considers that this is the only increase from 2016 to 2019, at least to the extent that it is attributable to Rural ratepayers. Therefore, even in the absence of a fully reasoned calculation of the appropriate dividend, the Panel is willing to accept Nelson Hydro's proposed dividend for 2019."

The BCUC, in section 2.2.3, highlights that "[a]ll ratepayers have benefited from the investments made by Nelson Hydro, and section 59(5)(b) of the UCA states that a rate is unjust or unreasonable if it is "insufficient to yield a fair and reasonable compensation for the service provided by the utility, or a fair and reasonable return on the appraised value of its property." Collecting no dividend from Rural ratepayers is clearly not a fair and reasonable return on Nelson Hydro's investment. The Panel is not persuaded that it is reasonable for Nelson Hydro to arbitrarily assign the dividend exclusively to Urban customers."

2.2.5 Capital Reserve

Nelson Hydro's forecast transfers to capital reserve for 2019 at \$2.877 million. The BCUC Order G-274-19 Reasons for Decision, section 2.3.5 notes that the "Panel accepts that capital expenditures can be "lumpy" and that the use of a Capital Reserve can serve to smooth out fluctuations in rates that would otherwise be required to match the timing of capital spending. While the proposed transfer to the Capital Reserve in 2019 is not sufficient to cover the forecasted capital expenditures in the year, the Panel is satisfied that the amount of the transfer is reasonable, as the balance of the Capital Reserve is forecasted to remain in the target zone at the end of the year."

2.2.6 Water Licence Payment

Nelson Hydro's forecast transfers for water licence payment in 2019 at \$0.658 million [unchanged from 2018 budget]. The BCUC Order G-274-19 Reasons for Decision, section 2.3.6 notes that the "BCUC found in the 2018 Decision that the water licence payment "represents compensation from the BC Government and BC Hydro to the City", and that Nelson Hydro's method for valuing the compensation was reasonable" and "for these reasons, the Panel considers that the transfer to the water licence reserve is reasonable."

2.2.7 Contribution to Community Complex

Nelson Hydro's forecast transfers to Community Complex in 2019 at \$0.09 million [unchanged from 2018 budget]. The BCUC Order G-274-19 Reasons for Decision, section 2.3.7 notes that in the "2017 Decision, the BCUC found that the contribution of \$90,000 was reasonable as a "means of promoting the utility as a good corporate citizen in the community"" and "the Panel finds that the transfer to the Community Complex is reasonable" for 2019.

2.3 FUTURE RATE APPLICATIONS

This section provides Nelson Hydro's response to the BCUC directives regarding the future rate applications.

2.3.1 2020 Rates Application

Nelson Hydro reviewed its financial forecasts for 2020. The forecasts indicate that without a 2020 rate change there will be sufficient revenue to fund operations and maintain the city dividend and transfers to

capital reserve at 2019 budget levels.¹ City of Nelson Council has approved a 0.00% general rate change for 2020. Accordingly, Nelson Hydro will not file a 2020 Rate Application as no rate increase is proposed for 2020.

2.3.2 Timing of Application

In section 4.0 of Reasons for Decision of the BCUC Order G-274-19, the BCUC notes that it “reminds Nelson Hydro to file its rate applications at least 30 days in advance of the start of the applicable calendar year in accordance with normal regulatory practices, and to remain in compliance with 2017 Decision directive 3, thereby allowing the BCUC to approve rates (whether interim or permanent) affecting the full calendar year.”

In response to 1st Round IR No 3.3.1 Nelson Hydro provided explanations for the timing of filing of the 2019 Application, including Nelson Hydro’s communications with the BCUC regarding the challenges Nelson Hydro was facing to file the rate application before the calendar year started.

Nelson Hydro will file future rate applications at least 30 days in advance of the start of the applicable calendar year as directed by the BCUC. However, Nelson Hydro would like to emphasize and kindly request the BCUC take into consideration that the rate changes are also required to be reviewed and approved by the City of Nelson Council before Nelson Hydro can file a rate application before the BCUC. In some cases,² Nelson Hydro may not be able to file the application at least 30 days in advance of the start of the applicable calendar year. Nelson Hydro will keep the BCUC informed if any delays with the rate application filing timing.

2.3.3 Cost of Service Study

In section 2.1 of Reasons for Decision of the BCUC Order G-274-19, the BCUC notes that it “finds that Nelson Hydro has failed to comply with the BCUC directive in the 2018 Decision to file a COSA”.

The BCUC also acknowledges that Nelson Hydro filed and included “a COSA study dated December 2018 with an amendment dated February 28, 2019 (together the 2017 COSA Study) as Appendix A of the Application”.³ As the BCUC highlighted in the Order G-274-19, Nelson Hydro noted that COSA study was subject to a separate filing and provided for information purposes in the 2019 Rural Rate Application rather than a rationale for the 2019 rate changes⁴ considering potential high rate increases for Rural Service area from rate rebalancing in 2019 if COSA results were used for rate changes.⁵

¹ With the Nelson Hydro proposed allocations (acknowledging BCUC has not yet approved these allocations) the non-municipal utility 2020 budget revenues only recover allocated portion of the operating costs and cost of debt.

² Such as in election years when additional time is required before newly elected Council is sworn in or when Council requires additional information from Nelson Hydro before approval of the rate proposal.

³ Reasons for Decision of the BCUC Order G-274-19, page 6 of 18.

⁴ Exhibit B-1, page 10.

⁵ Exhibit B-4, responses to BCUC IR No 21.1 and 25.1.

In section 4.0 of Reasons for Decision of the BCUC Order G-274-19 [page 17 of 18], the BCUC notes that “if Nelson Hydro wishes to differentiate rates between Rural and Urban customers at some time in the future, a detailed COSA study (as previously directed) is required and necessary.”

The BCUC also notes that the “Panel has expressed concerns about whether certain classes of the utility’s total costs have been appropriately allocated to Rural customers, for example the power purchase costs, energy supply costs, capital reserve transfer, water license reserve transfer, community complex contribution and the dividend transfer. The Panel recommends that Nelson Hydro considers addressing these concerns when it files its COSA and rate design application(s).”⁶

Nelson Hydro will include COSA with an application for rate redesign and in the interim any general rate change applications will apply equally to municipal and non-municipal customers.

2.3.4 Allowed Return (ROE)

In section 4.0 of Reasons for Decision of the BCUC Order G-274-19 [page 17 of 18], the BCUC directs that Nelson Hydro submit as part of its next rate application a “fully reasoned calculation and approach to determining the City’s ‘allowed return’”. The BCUC also notes that it “expects that Nelson Hydro will include a sound justification for any departure from the current practice of using the BCUC allowed benchmark return and/or a premium or reduction to the benchmark return. This filing must include detailed supporting calculations on the issues including, but not limited to: an assessment of the utility’s credit rating and risk profile, the ability of the utility to attract capital at reasonable costs and any impact to the utility’s financial integrity. Nelson Hydro must also include a discussion on how any proposed allowed return application will impact and/or reconcile with the current method of the dividend transfer, which the BCUC has previously accepted as a proxy calculation to a reasonable return for the utility.”

Nelson Hydro will include a proposal for determination of ROE in the next rate application.

2.3.5 Public Engagement

In section 4.0 of Reasons for Decision of the BCUC Order G-274-19 [page 17 of 18], the BCUC notes that it believes the comments received during the review of Application “may reflect insufficient engagement by Nelson Hydro with its Rural ratepayers and recommends that the utility consult more fully with its Rural customers before it files any application for differentiated rates.”

As indicated in response to BCUC IR No 23.2 [Exhibit B-4], Nelson Hydro organized a public open house [February 7, 2019] to review COSA outcomes, including discussion on how the costs are allocated and what COSA outcomes indicate. On November 13, 2019 Nelson Hydro organized the second open house and public engagement process highlighted in the Application and noted IR response. Nelson Hydro also conducted a survey and received over 660 responses from the survey participants. Nelson Hydro will provide details of public engagement in the next rate application.

⁶ Reasons for Decision of the BCUC Order G-274-19, page 16 of 18.

2.3.6 Multi-Year Application

In section 4.0 of Reasons for Decision of the BCUC Order G-274-19 [page 17 of 18], the BCUC directed Nelson Hydro “to include a discussion in its next rate application on the merits and timing of a multi-year rates application and a consideration of any regulatory efficiency that may be gained.”

Nelson Hydro will include a discussion regarding a multi-year rate option in the next rate application.

3.0 REQUESTED APPROVALS

Nelson Hydro requests the following final approvals:

1. Approval of rate tariffs as provided in Attachment 1 to this Compliance Filing effective December 1, 2019 [applicable for billing on and after December 1, 2019].

ATTACHMENT 1

Corporation of the City of Nelson Electrical Utility Amendment
Bylaw No. 3478, 2019

(tariff pages reflecting permanent 2019 rates for all Rural
customer classes)

THE CORPORATION OF THE CITY OF NELSON

BYLAW NO. 3478

A BYLAW TO AMEND “THE CORPORATION OF THE CITY OF NELSON HYDRO SERVICES BYLAW NO. 3196, 2012”

WHEREAS it is deemed necessary to amend “The Corporation of the City of Nelson Hydro Services Bylaw No. 3196, 2012” to increase rates to cover the Non-Municipal (rural) costs of operating the City of Nelson’s hydro system;

NOW THEREFORE the Council of the Corporation of the City of Nelson, in open meeting assembled, enacts as follows:

1. That the said Bylaw be amended by creating a new Schedule “F” – Non-Municipal Service Description and Rates, attached hereto.
2. This Bylaw shall receive the approval of the British Columbia Utilities Commission prior to adoption.
3. This Bylaw may be cited as the “**Corporation of the City of Nelson Electrical Utility Amendment Bylaw No. 3478, 2019.**”
4. This Bylaw shall come into force and effect on _____, 2019.

READ A FIRST TIME the 27th day of November, 2019
READ A SECOND TIME the 27th day of November, 2019
READ A THIRD TIME the 27th day of November, 2019

RECEIVED approval of the British Columbia Utilities Commission on
The _____ day of _____, 2019 per order No. G-274-19

FINALLY PASSED AND ADOPTED the _____ day of _____, 2019

Mayor

Corporate Officer

SCHEDULE "F"
NON-MUNICIPAL SERVICE DESCRIPTIONS AND RATES

RATE A-3

Residential Service Rates - Rural

Applicable to Rural Customers

Applicable to residential or domestic use

Applicable to common residential use

Applicable to domestic water systems with connected load of 5HP or less

Rate:

Energy Charge - Bi-monthly

Basic Charge \$16.22 per period

All kWh per period @ 10.51 cents per kWh

Demand Charge

First 20 kW - nil

All additional kW @ \$7.37 per kW

Minimum Charge

The minimum charge per period shall be \$16.22

Rate A-3

SCHEDULE "F"
NON-MUNICIPAL SERVICE DESCRIPTIONS AND RATES

RATE B-4

Commercial Service Rates - Rural

Applicable to Rural Customers

Applicable to small non-residential customers of loads up to 25 KVA where no Demand Meter is installed

Rate:

Energy Charge - Bi-monthly

Basic Charge \$ 38.32 per period

All kWh per period @ 12.34 cents per kWh

Minimum Charge

The minimum charge per period shall be \$ 38.32

Rate B-4

SCHEDULE "F"
NON-MUNICIPAL SERVICE DESCRIPTIONS AND RATES

RATE C-4

General Service Rates - Rural

Rate:

Energy Charge – Monthly

Basic Charge \$ 38.32 per month
First 15,000 kWh per month @ 11.06 cents per kWh
All additional kWh per month over 15,000 @ 11.06 cents per kWh

Demand Charge

\$8.11 per KVA. of billing demand above 25 KVA

Minimum Charge

- a) \$ 38.32 per month, or
- b) the demand charge

Billing Demand

The greatest of:

- a) The maximum demand in KVA the current billing month, or
- b) Seventy-five percent (75%) of the maximum demand in KVA registered during the months in the previous eleven month period

Discounts

- a) If service under this rate is metered at Primary Voltage, a metering discount of 1.5% shall apply
- b) If the Customer supplies the necessary step down transformers and transmission line voltage protective equipment and installs the same on his premises, a further discount of 64.59 cents per KVA of Billing Demand shall apply

SCHEDULE "F"
NON-MUNICIPAL SERVICE DESCRIPTIONS AND RATES

RATE F-2

Commercial Flat Service Rates - Rural

Applicable to Rural Customers

Applicable to Commercial Utilities with usage of energy estimated to be less than 400 kWh per billing period

Rate:

\$61.95 bi-monthly

Rate F-2

SCHEDULE "F"
NON-MUNICIPAL SERVICE DESCRIPTIONS AND RATES

RATE G-4

Street or Outdoor Lighting - Rural

Applicable to Rural Customers where the City owns, installs and maintains the lamps.

Applicable only to high intensity distribution lamps as may be approved by the City.

A surcharge of \$8.84 per Month will apply if the City installs a pole for the above lighting.

For fixtures with lamp rates different from those above, the Monthly rate shall be 1.5% of the installed cost of the fixtures plus 3.28 cents per watt of the rating of the lamp and ballast.

Maintenance will be conducted by City crews during regular working hours. The customer will be responsible for any willful damage caused by any person or thing.

The original term of the contract shall be for three years and may be renewed for periods of one year until terminated by written notice of at least 30 days by the City or the customer.

Deposit

The minimum deposit shall be an amount equal to 2 1/2 times the average monthly invoice.

Rate:

<u>Lamp Size in Watts</u>	<u>Monthly Charge</u>
150	\$25.13
250	\$31.45

SCHEDULE "F"
NON-MUNICIPAL SERVICE DESCRIPTIONS AND RATES

RATE M-1

Manual Meter Reading

Applicable to Rural Residential Customers

An optional service is offered to those customers who prefer not to have a radio read meter at their service entrance. A digital non-radio read meter will be installed as an alternate to the standard digital radio read meter.

The customer will be required to pay a onetime "Setup Charge". For each billing cycle thereafter, the customer will be required to pay a "Manual Read Charge" along with the regular residential service rates applicable under Schedule A-1 or Schedule A-3 of this bylaw.

This service may be discontinued if it is not compatible with the Technology, Practices, Procedures or Capacity of the Electric Utility. In the event of program cancellation a refund of the setup fee will be made to any customer who subscribed to the service less than two years prior.

Rate:

Setup Charge

Each electric meter - Rural \$181.10

Manual Read Charge

Manual Read for each billing cycle – Rural \$24.97