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Utilities Commission

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February 4, 2021

Sent via email/eFile

NELSON HYDRO 2021 GENERAL RATE INCREASE
EXHIBIT A-4

Gabriel Bouvet-Boisclair
Deputy Corporate Officer
City of Nelson
Suite 101, 310 Ward St.
Nelson, BC V1L 5S4
dco@nelson.ca

Re: Nelson Hydro – 2021 General Rate Increase Application – Project No. 1599167 – BCUC Information Request No. 1

Dear Mr. Bouvet-Boisclair:

Further to your above-noted application, enclosed please find British Columbia Utilities Commission Information Request No. 1. In accordance with the regulatory timetable, please file your response no later than Tuesday, February 23, 2021.

Sincerely,

Original signed by:

Marija Tresoglavic
Acting Commission Secretary

/jo
cc: sspencer@nelson.ca
Enclosure

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Nelson Hydro
2021 General Rate Increase Application

INFORMATION REQUEST NO. 1 TO NELSON HYDRO

1.0 Reference: APPLICATION
Exhibit B-1, Section 2.2, p. 2; Section 2.3, p. 3
Rate Implementation

Nelson Hydro states on page 2 of its 2021 General Rate Increase Application (Application):

> Nelson Hydro's proposed general rate increase as set out in this Application is a 2.3 percent rate increase for the calendar year (a 3.32 percent increase effective April 1, 2021) over the existing rates approved effective April 1, 2019.

1.1 Please confirm that the new rate level, if the proposed 3.32 percent rate increase effective April 1, 2021 is approved, would be in place until Nelson Hydro requests a future rate change or at least until March 31, 2022. If not confirmed, please explain otherwise.

1.2 Please confirm, or explain otherwise, that the proposed 3.32 percent rate increase is based on revenue requirement projections until the 2021 calendar year-end.

1.2.1 Please confirm, or otherwise explain, whether Nelson Hydro is projected to over-recover revenue if the new 3.32 percent rate increase continues to be in place as of January 1, 2022 and beyond.

1.2.1.1 If confirmed, please explain how Nelson Hydro will adjust the revenue requirement for the subsequent year (beginning January 1, 2022). Please provide supporting calculations.

1.3 Please confirm, or explain otherwise, if Nelson Hydro would sufficiently recover its costs if the proposed general rate increase of 2.3 percent is implemented for the 12-month period from April 1, 2021 to March 31, 2022.

1.4 Please provide the annual bill impact in dollars for an average residential, commercial, and streetlight customer, separately by Rural and Urban rate classes, based on the proposed rate increase effective April 1, 2021. Show the assumptions and calculations.

1.5 Please indicate whether Nelson Hydro can set rates based on a 12-month period, such as from an April 1 to March 31 basis. If feasible, please provide the pros and cons of this rate setting mechanism as compared to compressing an annual rate change into a 9-month period.

In Exhibit B-2, Nelson Hydro in the Nelson-Hydro-2020-21-Budget-Spreadsheet under the "Forecast" tab provides the calculation to convert the annual rate increase of 2.3 percent to a rate increase required as of April 1, 2021 of 3.32 percent, noting that "69% of revenues occuring during the April to December period."

1.6 Please provide supporting evidence to show that 69 percent of revenues occur during the April to December period. Compare this figure with historical actuals for the past 5 years and clarify

whether the 69 percent is an assumption for the 2021 test period.

On page 2 of the Application, Nelson Hydro states:

> … in the event final approvals cannot be granted by the Commission in this proceeding in sufficient time, the 3.32 percent general rate increase be approved on an interim and refundable basis prior to April 1, 2021, to permit implementation as of April 1, 2021, pending the outcome of this proceeding.

1.7 Please specify when Nelson Hydro would require an interim rate approval, if granted by the British Columbia Utilities Commission (BCUC), in order to have sufficient time for the April 1, 2021 implementation date.

On page 3 of the Application, Nelson Hydro states:

> In this Application Nelson Hydro is proposing a percentage rate increase based on forecast costs for the utility as a whole. Nelson Hydro submits that exploration of the COSA and Rate Design issues is not necessary for this Application as no rate differential between the Urban and Rural service areas is being sought as part of this Application.

Footnote 5 on page 3 of the Application, Nelson Hydro states:

> City Council has directed staff to move forward with the bylaw adoption process to apply the same rate increase requested here to the Urban service area. City staff anticipate the bylaw amendment will be presented to City Council for first three readings at a Council Meeting in December 2020.

1.8 Please indicate if the city bylaw has been adopted. If so, please confirm that the general annual rate increase for the Urban service area is 2.3 percent annual, or equivalent to 3.32 percent effective April 1, 2021.

1.8.1 If not confirmed, please provide the general rate change for the Urban service area that was approved by the City Council and the reasoning for the change.

1.9 Please confirm, or explain otherwise, if the rate increase for Rural ratepayers goes into effect on the same schedule as Urban ratepayers as of April 1, 2021.

2.0 Reference: APPLICATION
Exhibit B-1, Section 4.2, p. 9
Customer Service Software Upgrade

On page 9 of the Application, Nelson Hydro states:

> The utility has implemented a software upgrade that allows for improved accounting reports and improved meter inventory. This upgrade will also allow for Nelson Hydro to begin to offer e-billing and an online account payment portal, which is expected to be available in 2021.

2.1 Please discuss whether there will be incremental costs, if any, for Nelson Hydro to implement the software upgrade.

2.1.1 If so, please confirm the dollar amount and explain which category of expenses these costs appear in Table 5-3: 2021 Draft Operating Budget (abbreviated) of the Application.

2.2 Please confirm, or explain otherwise, that paper billing will continue to be available for customers.

2.2.1 If so, please confirm that Nelson Hydro is not proposing any surcharge to customers choosing to continue with paper billing.

2.3 Please discuss the expected savings, if any, for Nelson Hydro from e-billing instead of printing paper bills.

3.0 Reference: APPLICATION
Exhibit B-1, Section 3, p. 5
Stakeholder Engagement

Page 5 of the Application states:

> Nelson Hydro staff presented to Council with regard to this Application and the 2021 budget on November 12, 2020. On November 27, 2020 Nelson Hydro staff again presented to Council on these topics and also included a broader overview of the utility's operations over the course of the year. Both of these meetings were open to the public and notice was provided through the online posting and publication of the City Council agendas…
>
> This year the Annual Open House is scheduled to take place on a virtual platform on the evening of December 10, 2020. Among other matters, Nelson Hydro will present to those attending with regard to this Application and allow time for questions to be asked and answered. The Annual Open House has been advertised to the public using the City's website, social media accounts, and in the local newspapers.

3.1 Please provide an update from the December 10, 2020 Annual Open House. Please include in the response, meeting minutes or outcomes, attendance numbers and whether Nelson Hydro has a breakdown of representation from Urban and Rural ratepayers.

3.2 Please provide any questions or feedback from those in attendance in regard to this 2021 General Rate Increase application for the Rural customers.

4.0 Reference: OPERATIONS
Exhibit B-1, Section 4.1, pp. 6–7
Reliability and Power Outages

On page 6 of the Application, Nelson Hydro states:

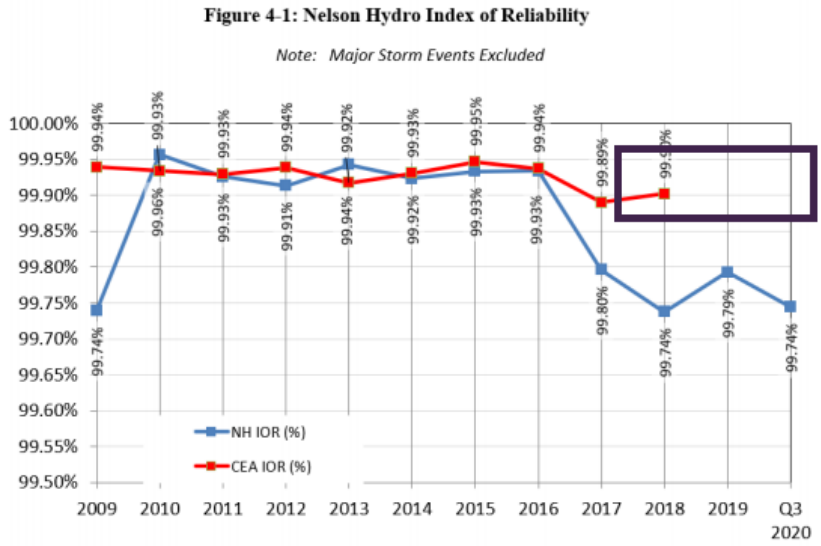
> Nelson Hydro has faced challenging circumstances over the past three years that have resulted in a decline in reliability from 2017 through the third quarter of 2020. As detailed below, these challenging circumstances primarily include: loss of supply from FortisBC, tree-related outages, and wind-related outages.

4.1 Please discuss whether reliability issues, loss of supply, and system outages have led to any costs or penalties for Nelson Hydro, other than costs directly related to vegetation management.

4.1.1 To the extent possible, please quantify these costs or penalties for historical years 2017 through to 2020.

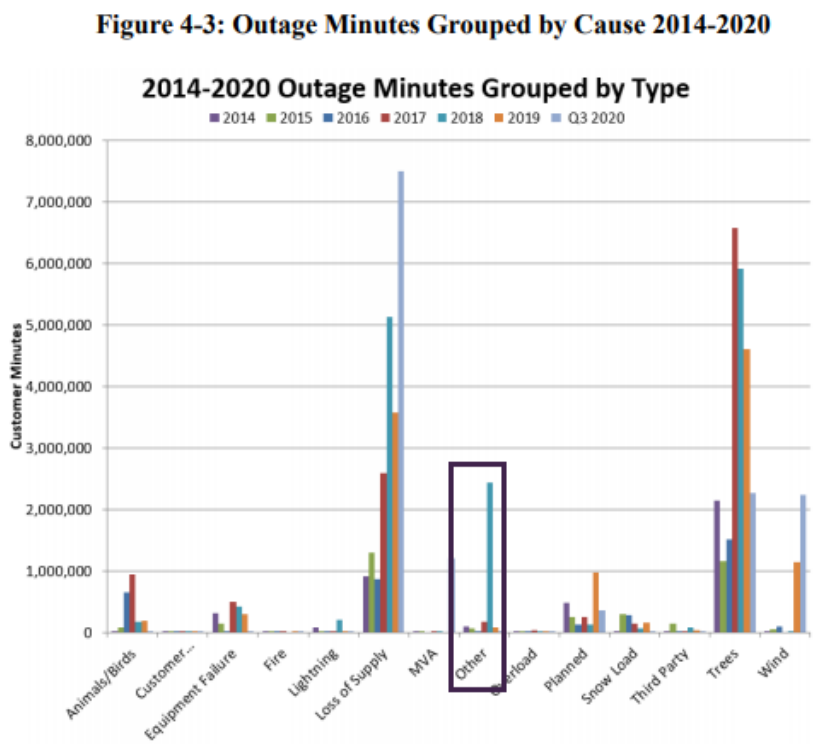
On page 6 of the Application, Nelson Hydro provides Figure 4-1: Nelson Hydro Index of Reliability. The

figure shows Nelson Hydro's index of reliability compared to the Canadian Electricity Association's (CEA) index of reliability.



4.2 Please provide an updated graph of Figure 4-1 to show the CEA index data missing for 2019 and, if possible, 2020 calendar year.

On page 7 of the Application, Nelson Hydro provides Figure 4-3: Outage Minutes Grouped by Cause 2014-2020. The figure provides a breakdown for the number of customer outage minutes grouped by different causes.



4.3 Please elaborate on the cause of the "Other" outage in 2018.

4.3.1 If applicable, please explain the possibility of the cause occurring again in 2021.

5.0 Reference: OPERATIONS
Exhibit B-1, Section 4.1, pp. 6–9; Exhibit B-2, 2020-21 Budget Spreadsheet
Exhibit A2-1, Nelson Hydro December 10, 2020 Presentation Slides
Vegetation Management

On pages 8 to 9 of the Application, Nelson Hydro states:

> … weather events impacting reliability are disproportionately experienced on the North Shore – a part of the Rural service area that is particularly challenging in this regard due to its larger geographic footprint and high density of vegetation that can disrupt service provision.
>
> Nelson Hydro's practice is to conduct vegetation management on a three-year cycle by service area (Urban, North Shore, South Shore). The manner in which the vegetation management work is carried out is that each year the service area designated as a "focus area" receives additional attention, but necessary vegetation management is completed as needed in the other areas. This normally results in significant vegetation management on the North Shore even in years where this area is not the focus simply because this area requires it given the amount of vegetation spanning that service area.

On spreadsheet tab "Operating 2020-2021" of the Nelson-Hydro-2020-21-Budget-Spreadsheet provided by Nelson Hydro as part of Exhibit B-2, Nelson Hydro shows major storm repair and tree trimming costs.

Function Description	W/O Description	2020 YTD Actual (draft - year end not complete)	2020 Budget	2021 Budget (draft)
	Major Storm Repair-North Shore	198,526	-	32,000
	Major Storm Repairs-City	67	-	10,000
	Major Storm Repairs-SS	11,780	66,000	67,800
	Tree Trimming - City	7,740	268,250	200,000
	Tree Trimming - NS	327,562	165,500	225,000
	Tree Trimming - SS	441,259	200,000	75,000

On slide 50 of the Nelson Hydro 2020 Virtual Open House – December 10, 2020 presentation in Exhibit A2-1, Nelson Hydro states:

> 2021 Initiatives … Vegetation Management "Best Management Practices". Primarily benefits Rural areas.

5.1 Please explain why Nelson Hydro uses a three-year cycle for vegetation management for the three areas (Urban, North Shore, South Shore) equally despite the process resulting in significant vegetation management on the North Shore even in years where this area is not the focus.

5.1.1 Please elaborate on the 2021 initiatives Nelson Hydro intends to pursue as it relates to "Best Management Practices" for vegetation management.

5.1.2 Please discuss whether Nelson Hydro has explored alternative cycles or plans to manage the North Shore area more frequently to reduce costs and improve effectiveness.

5.2 Considering actual 2020 (draft year-end value) North Shore vegetation management tree trimming costs of $327,562 were approximately twice the budgeted amounts as well as actual 2020 major storm repairs costs for the area of $198,526, please elaborate why Nelson Hydro has budgeted $225,000 for tree trimming and $32,000 for major storm repair for 2021.

5.3 Considering actual 2020 (draft year-end value) South Shore vegetation management tree trimming costs were $441,259, please discuss the sufficiency of the $75,000 budgeted for 2021

apart from reasoning that the South Shore is no longer the focus area in 2021 as it was in 2020.

5.4 Please confirm, or explain otherwise, if Major Storm Repair costs are caused by tree-related outages.

5.4.1 If so, please explain why Nelson Hydro only budgeted major storm repair costs for the South Shore area and not across all three regions.

5.5 Please confirm if there are any other vegetation management-related costs in the operating budget apart from tree trimming.

5.5.1 Please elaborate on what Primary and Secondary Maintenance costs entails if they are related to vegetation management.

On page 8 of the Application, Nelson Hydro provides Figure 4-4 which shows the customer minutes outage due to trees/wind by area. The City (Urban) area shows increasing customer outages in minutes: approximately 200,000 minutes in 2018, approximately 450,000 minutes in 2019 and 1,400,000 minutes in 2020.

On page 9 of the Application, Nelson Hydro states:

> In 2021 the focus area will be the Urban service area and the utility has budgeted a total of approximately $500,000 for vegetation management.

5.6 Please elaborate why Nelson Hydro estimates a total budget of $500,000 in 2021, considering that the amount is within the same range as the vegetation expense that occurred in 2018 when the Urban area was also the focus area ($517,915) yet customer outages in minutes in the Urban area in 2020 have been increasing over the previous three years.

On page 8 of the Application, Nelson Hydro states:

> The primary cause of loss of supply from the FortisBC system is attributed to trees, winds and other storm-related events. The Coffee Creek Substation is the primary point of failure when supply from FortisBC is lost.
>
> Nelson Hydro and FortisBC communicate regularly with regard to the power supply and its reliability challenges. FortisBC appears committed to improving the reliability of the power supply as evidenced by the fact that it has performed substantial vegetation management on the transmission line supplying the Coffee Creek Substation.

5.7 Please discuss the extent to which the outages due to loss of supply from FortisBC Inc. (FBC) are tree <u>and</u> wind related.

5.8 Please elaborate on Nelson Hydro's communication and efforts with FBC to address reliability challenges.

5.8.1 Please elaborate on the vegetation management specifically of the transmission line supplying the Coffee Creek Substation considering that the substation is the primary cause of loss of supply and its failure is attributed to trees, winds and other storm related events.

Nelson Hydro has an accountability for vegetation within the transmission and distribution corridors while Nelson Hydro customers have the accountability to maintain vegetation on their properties such

that it does not present, or cause, damage to Power Line infrastructure.[1]

5.9 Please confirm, or explain otherwise, if Nelson Hydro has sole responsibility for vegetation management on the transmission and distribution corridors.

5.9.1 If applicable, please discuss the role and responsibility of the City of Nelson and rural municipalities in vegetation management.

5.9.2 If applicable, please discuss the role and responsibility of FBC in vegetation management.

5.9.3 To the extent possible, please quantify the amount of tree and wind-related damage in dollars that occurs on private customer property and the damage that occurs in transmission and distribution corridors.

5.9.3.1 Please confirm, or explain otherwise, that Nelson Hydro enforces utility clearance requirements from vegetation on Rural customer properties.

5.9.4 If applicable, please discuss the role of any other party that may have responsibility for vegetation management as it relates to Nelson Hydro's operations.

Nelson Hydro's 2020 Plan for Vegetation & Tree Trimming webpage states:

> The work [vegetation & tree trimming] is done by Certified Utility Arborists, and may include more than one contractor crew. All crews will have the Nelson Hydro logo displayed on their trucks.[2]

5.10 Please discuss the procurement process to select certified utility arborists who conduct vegetation management work on behalf of Nelson Hydro.

5.11 Please discuss any safety risks and concerns, such as fires, that can be caused by vegetation exposure on equipment that is vulnerable to wind, storms or snow. How does Nelson Hydro mitigate these safety risks (if any)?

6.0 Reference: OPERATING COSTS
Exhibit B-2, Operating 2020-2021
EcoSave Program

Nelson Hydro's EcoSave program is: "A simplified process has been designed for Nelson Hydro customers, who are homeowners, to have a home energy evaluation to determine what energy efficiency upgrades (retrofits) can be done to reduce energy consumption and lower greenhouse gas emissions, and to access current rebate offers."[3]

On spreadsheet tab "Operating 2020-2021" of the Nelson-Hydro-2020-21-Budget-Spreadsheet provided by Nelson Hydro as part of Exhibit B-2, Nelson Hydro shows EcoSave-related costs.

[1] *See* Nelson Hydro Vegetation Management in proximity to Power Lines, retrieved from http://www.nelson.ca/DocumentCenter/View/4252/Nelson-Hydro-Vegetation-Management-Guidelines?bidId=
[2] *See* 2020 Plan for Vegetation & Tree Trimming, retrieved from http://www.nelson.ca/240/2020-Plan-for-Vegetation-Tree-Trimming
[3] *See* EcoSave Energy Retrofit Program, retrieved from https://www.nelson.ca/742/EcoSave-Energy-Retrofit-Program

Function Description	W/O Description	2020 YTD Actual (draft - year end not complete)	2020 Budget	2021 Budget (draft)
Ecosave	Energy Retrofit Operations	79,261	98,000	196,000
	Reg Energy Efficiency Program	171,597	145,250	83,000
	Solar Garden operations	923	2,250	2,300
Ecosave Total		251,781	245,500	281,300

6.1 Please provide a description to explain the difference between Energy Retrofit Operations costs and Reg Energy Efficiency program costs found in the spreadsheet tab "Operating 2020-2021" as part of Exhibit B-2.

6.2 Please confirm, or explain otherwise, if the eligibility and benefits for the EcoSave program are the same for both Nelson Hydro's Urban and Rural customers.

6.3 Please explain why the Energy Retrofit Operations expense has increased from $98,000 (2020 Budget) to $196,000 (2021 Budget draft).

6.4 Please explain why the Reg Energy Efficiency Program expense has decreased from $145,250 (2020 Budget) to $83,000 (2021 Budget draft).

7.0 Reference: OPERATING COSTS
Exhibit B-2, Operating 2020-2021
Power Purchases

On spreadsheet tab "Operating 2020-2021" of the Nelson-Hydro-2020-21-Budget-Spreadsheet provided by Nelson Hydro as part of Exhibit B-2, Nelson Hydro shows power purchase-related costs:

Function Description	W/O Description	2020 YTD Actual (draft - year end not complete)	2020 Budget	2021 Budget (draft)
Power Purchases	NH Export Energy	(125,247)	-	-
	Power Purchase - Customer Chg	72,411	72,490	75,568
	Power Purchase - Demand Chg	2,807,070	3,165,442	3,130,523
	Power Purchse - Energy Used	3,694,377	3,666,002	3,798,482
Power Purchases Total		6,448,611	6,903,934	7,004,573

7.1 Please explain the $125,247 credit Nelson Hydro received in 2020 (draft year-end value) for "NH Export Energy" power purchases. Who is the counterparty of the export energy?

7.1.1 Please clarify if the value is a one-time occurrence or expected to be a recurring item. If the item is expected to be recurring, please discuss why Nelson Hydro does not budget a value for the 2021 Budget.

8.0 Reference: RETURN
Exhibit B-1, Section 5.3.1, p. 13
Dividend

On page 13 of the Application, Nelson Hydro states:

> For 2021, this Application includes a proposed dividend at $2.885 million which is about 1.7 percent higher than the approved dividend amount for 2019 at $2.836 million (an annual average increase of 0.87 percent from 2019 to 2021)…

In its COSA and Rate Design Application Nelson Hydro proposes a return on equity (ROE) at 9.25%. As reviewed in the COSA and Rate Design Application the rate base for 2019 was $42.532 million and the equity portion of rate base is projected at $37.065 million. With a proposed ROE at 9.25%, the ROE for 2019 would be $3.429 million. The proposed dividend for 2021 at $2.885 million is much lower than the calculated ROE amount, which helps confirm that the proposed dividend amount for 2021 does not represent an unreasonably high level.

8.1 Please provide the calculation for the $2.885 million dividend proposed for 2021.

8.2 Please provide the justification for the proposed increase of 1.7 percent for 2021.

8.3 Please complete the table below with dividend amounts issued in each year compared against its equivalent return on equity (ROE) percentage for the past five years.

Year	Dividend Issued ($)	Equivalent ROE (%)	Equity ($) used to calculate ROE (%)
2020			
2019			
2018			
2017			
2016			

8.3.1 Please explain what equity ($) was used to calculate the ROE (%). For example, actual equity, an equity proxy, or other. Why are the chosen equity figure(s) appropriate for the ROE calculations?

8.4 The ROE of 9.25 percent is currently being reviewed as a part of the Nelson Hydro Cost of Service Analysis (COSA) and Rate Design Application. To what extent should the Panel give weight to the ROE comparison when it considers a fair return to Nelson Hydro in this proceeding?

8.4.1 Apart from the ROE comparison, please explain how the proposed dividend amount of $2.885 million is considered reasonable.

9.0 Reference: CAPITAL
Exhibit B-1, Section 5.4, p. 15
Capital Budget

On page 15 of the Application, Nelson Hydro states:

> Capital expenditures in 2021 are projected to be lower than in 2020, followed by a significant ramp up in activity in 2022-2025. Part of the reason that the 2021 expenditures are projected to be lower than in 2020 is the arrival of a new General Manager (arrived at the end of October 2020) and Capital Projects Manager (arrived at the end of August 2020). The arrival of new management for Nelson Hydro requires that these individuals have the opportunity to review the planned capital work and ensure that it aligns with their vision for the electric utility. Additionally, the outcome of the COSA & Rate Design Application may impact the planning and timing of certain capital expenditures.

9.1 Please clarify how the outcome of the COSA & Rate Design Application will impact the planning and timing of certain capital expenditures. Please include the implications on Nelson Hydro's capital spending and rate changes if the COSA is approved or not approved as filed. Explain

these implications separately for Rural and Urban customers, if any different.

9.2 Please explain what is considered "significant" ramp up in capital spending. Please clarify whether this is in regard to dollar figures or number of projects.

9.2.1 Please provide a list of expenditures expected to be included in this significant ramp up.

9.3 Please discuss the rationale for commencing this ramp up in 2022–2025 given that the outcome of the new management's review of planned capital expenditures is this pending.

9.4 Please explain if any of these capital expenditures benefit solely the urban or rural areas.

9.4.1 If any these capital expenditures benefit solely the rural area, does Nelson Hydro plan to file a Certificate of Public Convenience and Necessity (CPCN) or capital expenditure application pursuant to sections 44–45 of the *Utilities Commission Act* for these projects with the BCUC? Please identify the specific projects.

On page 15 of the Application, Nelson Hydro states:

> North Shore Pole Replacement (budgeting $649,000). Following the "test and treat" pole work that is currently being undertaken in the Harrop Procter area of the North Shore (Rural service area), the utility expects that it will need to replace a minimum of 60 poles.

Nelson Hydro's2021 Capital Budget provides the following items for pole work:

Nelson Hydro 2021 Capital Budget

Proj. Description	W/O Description	W/O	2020 Budget	2021 Budget (draft)
Rebuilds Pole Placement-N Shore	Cutouts - replace porcelain	6900	80,000	82,000
	Pole Replacement - North Shore	6903	200,000	479,000
	Telus Aerial Make Ready N/S	6980	186,000	-
	Telus Fiber Reconductoring N/S	6983	152,000	-
	25F71 Re-Closer	6924		60,000
	Pole Install Balfour Ferry	6917		170,000

Nelson Hydro's 2021 Operating Budget provides the following costs for pole work:

W/O Description	2020 YTD Actual (draft - year end not complete)	2020 Budget	2021 Budget (draft)
Pole Test/Treat	12,428	91,750	111,100

9.5 Please reconcile why the Application states $649,000 is budgeted for North Shore Pole Replacement while the Capital Budget has $791,000 for the 2021 budget [highlighted in yellow][4].

9.6 Please confirm whether the Pole Test/Treat of $111,100 for the 2021 Budget is included in the Capital Budget for the pole replacement.

9.6.1 If not confirmed, please explain why these costs would be separate from the capital spending.

9.7 Please explain if budgeted amounts highlighted in yellow for either "Rebuilds Pole Placement-N-Shore" or "Pole Test/Treat" above include costs for tree clearing and vegetation management. If

[4] $82,000 + $479,000 + $60,000 + $170,000 = $791,000

so, please quantify.

Nelson Hydro's 2021 Operating Budget provides the following costs:

W/O Description	2020 YTD Actual (draft - year end not complete)	2020 Budget	2021 Budget (draft)
Electrical Admin Exempt Staff	514,988	585,000	611,000
Grand Forks Expense	104,504	20,250	20,900

9.8 Please explain the Grand Fork Expense. Please include the reason 2020 actuals are $84,254[5] over the 2020 budget of $20,250 and whether the $20,900 budgeted for 2021 is still appropriate.

10.0 Reference: CAPITAL
Exhibit B-1, Section 5.5, pp. 16–17
Capital Reserves

On pages 16 to 17 of the Application, Nelson Hydro provides the following commentary and graph:

> …capital expenditures in 2021 are projected to be lower than in 2020. The result is a projected increase in the capital reserve for 2021, with downward pressure and a net transfer out of the reserve in the subsequent four-year period where spending is anticipated to increase. A projected long-term annual rate increase of 2.5 percent has been built into this forecast, as is required in order to stabilize the reserve balance within the target band of $5M to $10M. Figure 5-1 shows the capital reserve projection for future years.

[5] $104,504 - $20,250 = $84,254

Figure 5-1: Capital Reserve Projection

10.1 Please provide the dollar figures from 2019–2025 which are the basis for this graph.

10.2 Please provide the current balance of the capital reserve fund and its actual balance for the prior five years.

10.3 Please confirm, or explain otherwise, that Figure 5-1 shows the reserve balance (yellow line) in 2020–2021 increasing as contributions from operating (grey bar) are greater than capital expenditures (green bar) but the reserve balance decreases starting in 2022–2024 as capital expenditures are greater than contributions from operating.

10.4 Please explain and show the calculations as to how Nelson Hydro forecasted the long-term annual rate increase of 2.5 percent.

10.5 Please explain the impact on the capital reverse transfer/balance if the annual rate forecast was limited to:

- 1 percent;
- 1.5 percent;
- 2 percent.

10.6 Please explain if the outcome of the COSA and Rate Design Application will affect this annual rate forecast.

10.6.1 If so, given the COSA and Rate Design Application proceeding is still in progress, please discuss if drawing down the capital reserve to limit the annual general rate increase (or keep it at zero) for an additional year is an option. Discuss the pros and cons.