

Sent: Friday, February 12, 2021 1:54 PM

Subject: Letter of Comment - Nelson Hydro 2021 General Rate Increase - Jay Doyle

Attachments: NH Sub 2021.pdf

Date Submitted: February 12, 2021

Proceeding name: Nelson Hydro 2021 General Rate Increase

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

Name: Jay Doyle

City: Nelson

Province: British Columbia

Email: [REDACTED]

Phone number: [REDACTED]

Comment:

I have looked at the information provided by Nelson Hydro and do not consider any increase is justified

Has Attachment:

True

Comments on the 2021 General Rate Increase

Submission from Nelson Hydro

The BCUC's mission is to ensure that ratepayers receive safe, reliable, and non-discriminatory energy services at fair rates from the utilities it regulates, and that shareholders of those utilities are afforded a reasonable opportunity to earn a fair return on their invested capital.

Introduction:

The documentation supporting this application is dated 30th November 2020 and can be found on the website - BCUC file 64537. The document supports the increase in Rates for Rural consumers in April 2021. The increase is 2.3% over the current rate but because it is not commencing until April 2021 the rate for consumers will be 3.32% for the current year. The information provided was considered and is the subject of this document. The BCUC also requested additional Information in February 2021.

The analysis conducted does not support the request made by Nelson Hydro.

Summary of Findings:

The analysis of the information provided by Nelson Hydro supports the following findings:

- 1. A General Rate increase is not required for 2021**
- 2. Nelson Hydro is seeking additional income to support transfers to the City of Nelson**
- 3. The quality of the supporting information provided is suspect**

The following observations are made:

In 2020 Nelson Hydro made additional profits above expectation of \$278k without a rate increase whereas the 2020 documentation supported a General Rate increase. That request was correctly rejected by the BCUC.

The current approach does not consider the impact of any previous year Rate changes on performance. This could mean that consumers are paying in advance for future changes in the cost structure. It does result in a \$278 increase in the Capital Reserve that was not forecast.

The 2021 Revenue is likely understated, the Cost of Power is overstated, the increase in Dividend is unwarranted as is the increase in the Water Reserve and the Capital Reserve allocation could be restricted to Capital consumption in 2020 or to planned expenditure.

The net effect of these matters will be to remove the need for any upward change in the current Rates.

Discussion:

The following has been extracted from Table 5-1 on page 11 (Variance inserted):

	2020 Forecast	2020 Budget	Variance	Variance %
Revenue:				
Rates	\$ 18,600,000	\$ 18,450,000	\$ 150,000	0.81%
Other	\$ 700,000	\$ 794,250	-\$ 94,250	-11.87%
	\$ 19,300,000	\$ 19,244,250	\$ 55,750	0.29%
Expenses:				
Power Purchases	\$ 6,400,000	\$ 6,903,934	-\$ 503,934	-7.30%
Operating Costs	\$ 5,725,000	\$ 5,443,250	\$ 281,750	5.18%
Debt Servicing	\$ 459,614	\$ 459,614	\$ -	0.00%
	\$ 12,584,614	\$ 12,806,798	-\$ 222,184	-1.73%
Profit	\$ 6,715,386	\$ 6,437,452	\$ 277,934	4.32%
Transfers:				
Dividend	\$ 2,836,000	\$ 2,836,000	\$ -	0.00%
Water License	\$ 664,848	\$ 664,848	\$ -	0.00%
Capital	\$ 3,214,538	\$ 2,936,604	\$ 277,934	9.46%
	\$ 6,715,386	\$ 6,437,452	\$ 277,934	4.32%

In 2020 Revenue exceeded budget and the Expenses were lower than Budget.

Please note the following variances regarding operations in 2020:

- Power Sales Revenue was \$150k more than expected
- Other Revenue was down by \$94k
- Power Purchases were \$500k below budget (how is this possible)
- Operating costs were over budget by \$280k
- Contribution to Capital Reserve increased by \$278k

The result was a higher than expected Profit. The over budget profit of \$278k was transferred to the Capital Reserve. Nelson Hydro requested an increase in the cost of power to consumers that was rejected by the BCUC. If the Power Sales Revenue had matched budget and Other Revenue was at the actual level for 2020 there would still have been a profit for the year.

In effect Nelson Hydro made additional profits above expectation of \$278k whereas the prior year documentation supported a General Rate increase. No explanation is provided in the submission.

The request for an increase was rejected by the BCUC the Rate should have reduced.

The result of a Rate increase in one year does not seem to be considered in subsequent years.

Representations seem to focus on the likely performance in the upcoming year based on projections and assumptions provided by Nelson Hydro that have not been subject to any audit. In effect any increase that was not warranted generates a surplus that is distributed to the City of Nelson or held in the Capital Reserve for future use.

Consumers do not get any benefit returned to them even though they generated the surplus by consuming more energy or by paying a Rate above that required to break even.

The current approach does not consider the impact of any previous Rate changes. This could mean that consumers are paying in advance for future changes in the cost structure.

The following has been extracted from Table 5-1 on page 11 (Variance inserted):

	2020 Forecast	2021 Budget	Variance	Variance %
Revenue:				
Rates	\$ 18,600,000	\$ 19,100,000	\$ 500,000	2.62%
Other	\$ 700,000	\$ 712,100	\$ 12,100	1.70%
	\$ 19,300,000	\$ 19,812,100	\$ 512,100	2.58%
Expenses:				
Power Purchases	\$ 6,400,000	\$ 7,004,573	\$ 604,573	8.63%
Operating Costs	\$ 5,725,000	\$ 5,514,200	-\$ 210,800	-3.82%
Debt Servicing	\$ 459,614	\$ 459,614	\$ -	0.00%
	\$ 12,584,614	\$ 12,978,387	\$ 393,773	3.03%
Profit	\$ 6,715,386	\$ 6,833,713	\$ 118,327	1.73%
Transfers:				
Dividend	\$ 2,836,000	\$ 2,885,600	\$ 49,600	1.72%
Water License	\$ 664,848	\$ 693,835	\$ 28,987	4.18%
Capital	\$ 3,214,538	\$ 3,254,278	\$ 39,740	1.22%
	\$ 6,715,386	\$ 6,833,713	\$ 118,327	1.73%

The figures have been adjusted by Nelson Hydro to show the expected Revenue and Costs in 2021 and include the requested change in Rate.

The presentation shows a shift in the expected Revenue and Expenses to reflect 2021 forecasted Power Sales and associated expenses reflecting the new Rates and the change in Fortis charges, pay changes and a general increase in costs.

The result is additional Profit of \$118k that is distributed via Dividends, Water and Capital Reserve.

Clearly there is something strange about the numbers presented by Nelson Hydro as Power Purchase costs have gone up 8.63% (double what was expected), Operating costs have reduced by 3.82%, Transfers have increased by 1.73%. I will consider each in turn:

Power

Table 5.2 page 12								
	Total	Urban Residential	Rural Residential	Urban Commercial	Rural Commercial	Urban Municipal	Urban Streetlights	Rural Streetlights
Customer Count:								
Actual 2019	10680	5080	4203	924	329	86	23	35
Forecast 2020	10893	5202	4296	920	331	85	23	36
Budget 2021	10965	5243	4327	919	332	85	23	36
Energy (kWh):								
Actual 2019	156,100,198	44,779,250	57,521,589	42,595,552	7,687,558	3,516,249		
Forecast 2020	155,943,961	45,856,636	58,707,595	39,977,436	7,610,214	3,792,080		
Budget 2021	156,795,507	44,963,179	56,316,023	43,170,080	8,730,184	3,616,041		
Revenue:								
Actual 2019	\$ 18,556,144	\$ 5,173,180	\$ 6,435,741	\$ 5,388,936	\$ 1,078,193	\$ 350,135	\$ 110,147	\$ 19,812
Forecast 2020	\$ 18,488,471	\$ 5,296,441	\$ 6,569,380	\$ 5,057,146	\$ 1,067,713	\$ 367,832	\$ 110,147	\$ 19,812
Budget 2021	\$ 19,097,008	\$ 5,312,692	\$ 6,446,704	\$ 5,586,618	\$ 1,253,016	\$ 358,823	\$ 112,368	\$ 26,787
Comments:								
No apparent correlation between customer numbers and Energy consumed. ODD!								
Divide Rev with Energy by each category - implies Urban being charged much more for power. ODD!								
Rev per kWh cannot be same in 2019 and 2020 as different volumes and some items are fixed. ODD!								
Municipal energy is a bargain! ODD!								

At first glance this looks reasonable but no details regarding how the Budget 2021 is derived is provided.

- Residential customers increase but consumption drops below the 2019 actual and 2020 forecast levels – this is unlikely. There is no explanation of this in the document provided.
- The cost per kWh is strange as well. For some reason, the Urban consumers at \$0.1155 are paying more than the Rural consumers at \$0.1119 for 2020. This is counter intuitive.
- Average Rural Residential consumption in 2019 is 13686 kWh, in 2020 it is 13666 kWh but in 2021 it is 13015 kWh. This implies an understatement of at least 2.8 million kWh of sales or an error in the 2020 Forecast.
- It appears that the kWh and subsequent Revenue for Rural Residential is understated and should be 2.8M kWh more or about \$336k more.
- It is likely that Urban Residential is also understated based on the energy demands in 2019 and 2020 and the current situation.
- If this is not the case, then the assumptions should be provided by Nelson Hydro so they can be assessed for reasonableness.

Every class of consumer buys more power in 2021 than in 2019 except Rural Residential. Not much information is provided by Nelson Hydro regarding how consumption is forecasted but even small variations in this part of the modelling will result in a major impact in the Financial Performance and subsequent Rate calculations.

The projected overall increase in Power (kWh) to be sold in 2021 is 0.5%. Thus the cost of Power before the changes in the Fortis price should be negligible. If Fortis is the only significant cost factor the budget for 2021 should be in the order of the 2020 cost times 4.36% which is \$6,400k times 1.0436% = \$6,679 (say \$6,700k). This is \$300k less than shown in Table 5-1 and Table 5-2.

Transfers:

The Dividend seems to be based on a Return on Equity calculation. From other documents this seems to be 9.5% of Equity. Please consider the following:

- There are no shares or shareholders in Nelson Hydro
- The use of the Capital Reserve does not increase Equity
- The cost of managing Nelson Hydro is covered every year
- There is no Equity in Nelson Hydro that has not been paid for by consumers
- The Capital Reserve is Profit each year and not funds from external sources

How use of the Capital Reserve can increase Equity and thus result in higher Dividend when all the funds utilised are provided by the consumer is difficult to understand and counter intuitive. The whole concept of a Dividend is flawed within a local government framework yet it is reasonable for the City of Nelson to receive funding for projects that reward ALL its customers. There is no information provided regarding how the Dividend is utilised.

The Water License provides the water used to generate power. As the actual cost of generation and Distribution actually reduces in 2021 I cannot see why there is any increase in the allocation for its use. Again it does not make sense. The actual transfer of these funds was considered previously. It is an example of an owner charging customers for an asset they acquired because they were delivering an essential service in a monopoly situation. I do not accept the basis of the charge which seems to be “double dipping” however it is in place and there is no need for it to increase in 2021.

There are adequate funds in the Capital Reserve to cover Capital investment plans. Anything over \$2.9 million (the 2020 capital programme spend) is just an increase in cost to the consumer that is not warranted. When Capital plans are ready then the adequacy of the Reserve can be assessed.

In summary:

The purpose of the information provided is to increase the funds transferring to the City of Nelson.

The 2021 Revenue is likely understated (by at least \$100k but probably more like \$300k plus), the Cost of Power is overstated (say at least \$300k), the increase in Dividend is unwarranted as is the increase in the Water Reserve (which is incorrectly priced as it does not consider costs of generation or distribution) and the Capital Reserve allocation could be restricted to Capital consumption in 2020.

The net effect of these matters will be to remove the need for any change in the current Rates despite the price changes that have yet to be approved by the BCUC regarding Fortis and forecasted general increase in costs.

A summary of the benefits flowing to the City of Nelson may assist perspective:

Benefit in 2021	Assumed Value
Dividend	\$2,836k
Water	\$ 694k
Energy	\$ 100k
City Administration	\$ 240k
Interest(on Capital Reserve)	\$ 375k
Working Capital	??

These values benefit the City of Nelson and are factored into the financial models provided by Nelson Hydro. Nelson Hydro is a “cash cow”, the total flowing to the City of Nelson is \$4,245k every year.

This amount represents 21% of Total Revenue and that does not include the accumulated Capital Reserve.