

Nelson Hydro Cost of Service Analysis and Rate Design Intervenor Requests Document B1

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Preface: Most residents in the Nelson Hydro Service Area are proud to be served by a local utility. If the proposed rate design were seeking an equal rise in hydro rates for both urban and rural residential customers to balance commercial rates, then there would be indications of hardship for some customers, however the rate redesign would not be seen to be punitive to one set of customers and set a precedent for the provision of utilities in rural BC based on distance from a generating station or office. The current proposal is viewed as unacceptable by many rural customers. The Cost Recovery for rural residents is 97% which is viewed as an acceptable level for utilities. Rural residents as a whole are not likely troubled by The City of Nelson receiving a dividend if the utility is well managed. Outages are frequent and long lasting on some occasions which raises questions posed here. I can not ask all of the questions presented to me by both urban and rural residents however I have attempted to represent those that have been present in my discussions.

Some believe that Nelson Hydro ought to be able to weather the increase in Fortis wholesale rate increase without passing it on to customers as in the General Rate Increase Application however the COSA and RD is the document of concern.

The Regional District of Central Kootenays contracts with the City of Nelson / Nelson Hydro to work on reducing rural energy demand through energy retrofits and energy efficient new builds.

Full disclosure: I own a home in both the City of Nelson and rural area E of the Regional District of Central Kootenay where I have resided since 1981.

Return on Equity: Section 6 and 7, also 2.3 and page 25

1. Q Why would 8.75 return on equity not be a suitable return for Nelson Hydro given that the utility has an excellent and envious financial position with an acceptable debt to equity ratio?

The ability for the City of Nelson to borrow funds at an advantageous interest rate is secured by the Municipal Finance Authority of BC. All residents of the Regional District of Central Kootenay including the two electoral areas E and F served by Nelson Hydro bear the risk and responsibility for funds borrowed by the City of Nelson as municipal loans must be approved by the board of the Regional District of Central Kootenay. While the City of Nelson holds the risk of liability for operations there is shared responsibility for debt accessed through the Municipal Finance Authority.

2. Q Given Nelson Hydro believes its ability to raise capital invested is limited what is Nelson Hydro's perspective on its ability to access investment through this municipal lending vehicle?

Background and Relevant History:

3.Q Why does Nelson Hydro identify that it is different than privately owned or Crown Utilities and then proceed to compare rates and Return on Equity to Fortis and BC Hydro? Nelson Hydro generates power less expensively than other municipal utilities and perhaps public and private utilities. The position of Nelson Hydro as a utility is conflicted with its position as a source of revenue for the City of Nelson. Utilities such as Fortis have governance, taxation and other regulatory requirements that municipally owned utilities do not have.

4. Q The long history of serving rural customers indicates that all customers contributed to the development of infrastructure after 1922. How does Nelson Hydro assign value to the rural contribution to system growth?

5. Q. The City of Nelson's population has grown during the time of operation of Nelson Hydro. What is the rate of growth in the City of Nelson compared to the rural service area?

6. Q. Would Nelson Hydro be able to serve the year around needs of City of Nelson Customers with it's existing generation? If not what is the value of purchased power required to meet residential and commercial needs in the City?

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7. Q While the City of Nelson borrowed funds in the amount of \$8,750,000 to upgrade the plant at Bonnington was this repaid by the proceeds of Nelson Hydro sales generated by all customers?

8. Q Page 16 Footnote 34: Please explain the 1977 payment of \$425,000 and interest received by the City of Nelson for land expropriated for the Kootenay Canal. The Kootenay Canal lies within the rural areas surrounding Nelson. Why was it thought land was expropriated from the City of Nelson? Regional Districts were constituted in 1964.

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9. Q Please explain the relationship between the Nelson Hydro Contribution to the Nelson and District Recreation Centre and the rural electoral area and RDCK agreement that Nelson could tax the dams in Area E, F, H to the benefit of municipal and rural participants. Is Nelson's current benefit from that arrangement \$350,000 annually? (Piltz) Is the \$90,000 contribution to the Nelson and District recreation commission from Hydro revenues or Piltz?

10. Q BCUC. **BCUC** please clarify with the BC Government and BC Hydro if the allocation of a license for 265 cf. of water allocated to the City of Nelson was meant to compensate the City of Nelson General Administration or its Hydro operation and customers? Would the City of Nelson have received this water license if it were not a utility?

11. Q. Page 30 **BCUC** How did BCUC ascertain that Nelson Hydro's generating facility was built with urban customer's funds? Aside from the dividend paid to the City of Nelson the City of Nelson's Financial statements indicate additional financial benefit to the City of Nelson from Nelson Hydro.

12 Q. **Relevant History:** It is stated in the COSA in several locations that at no time did Nelson Hydro ever agree to supply power to the rural residents? How many Nelson Hydro bylaws refer to rural residents? Nelson Hydro charges landlords for tenants' unpaid bills in rural areas, has easements on private property in rural areas etc. What constitutes an agreement if not the issuance of contracts easements etc?

Stakeholder Engagement

Nelson Hydro's efforts in rural customer engagement have improved however:

Surveys: When customers were answering surveys it was not in context to proposed substantial rate increases for rural customers. The time period was short 1 week for customers to find out about the survey and answer. On our own time rural directors circulate notices as possible. Mail outs would be appreciated.

13 Q. Is this possible?

Open Houses. The last open house for the General Rate Increase and COSA was by Zoom with pre-registration. Some rural customers did not receive an answer to a request to participate. Participation was not robust

14. Q Is it possible to have a system of returning calls or emails during the period prior to a public Zoom meeting?

Presentation of Facts

Information on the Nelson Hydro mail-out dated January 27th: There has been much public scrutiny of the information provided in Nelson Hydro's Public Mail Out. (Document Interested Party COSA D-14 and Letter of Comment E22)

15. Q. Does Nelson Hydro plan on the 2021 General Rate Increase and the 2021 COSA rate design being implemented in each year including 2023 and compounding? This was not evident at first glance. It was not evident in comparison to Fortis rates. In fact is it not possible the proposed rural rate will be only slightly less than Fortis given similar General rate increases by Fortis

16. Q. Why did the mailout indicate the average monthly hydro bill is \$98.00 per month? Is the accurate number not \$127.00 per month? Has rural revenue inadvertently been understated and rural costs been overstated?

17. Q. Rural customers purchase an average 1200KW/h per month versus urban 800 kWh/ month. Rural customers are substantial contributors to Nelson Hydro. Many rural residents have no access to natural gas which represents the higher monthly use. Does this increased value not help to compensate for distance?

Page 55: The City is able to Account for how it allocates Generated versus purchased power.

18. Q. On any given day in the winter or during a Nelson generating plant failure does Fortis supply any power to Nelson residents? Can Nelson Hydro distinguish the source of power drawn in peak power or extreme cold.? The power is co-mingled. Charging rural residents for Fortis Power only would be charging them for the urban area's larger customer base's power use in peak times and cold weather. The most expensive power allocation.

19. Q Over the most recent one year period provide a weekly list (kWhrs) of power purchased from Fortis BC.

20. Q Over the same period provide a corresponding list (kWhrs) of rural residential power consumption.

21. Q If you are unable to provide the data for #2 and #3 explain how you have determined the allocation of purchased power costs to rural customers?

22. Q. In the COSA report generated power is costed to rural residential customers at the Fortis BC purchased power rate. The purpose of COSA is to compare actual costs - should you not have costed the generated power costs to rural customers at the same rate as charged to urban customers? Is this not inflating rural residential costs? Identify all costs in the COSA that have been allocated to residential rural customers at rates different than used for urban?

Figure 9.3 In COSA

23 Q. Why is figure 9.3 different than the Nelson Hydro mail out to Rural Customers that indicates an typical rural hydro bill is \$98.00 per month?

Benefits that Ecruc to the City of Nelson

24 Q. Does the City of Nelson provide power Nelson Hydro Power to it's municipally owned buildings at low or no cost? What is the value of any reduced or no cost power to the City of Nelson ? Does the City also collect hydro fees from tenants of any municipally owned buildings that receive hydro at a lowerm or reduced cost?

Q Dividend and Surplus

Nelson Hydro has posted surplus's of over \$6,000,000 in each 4 years with 2019 being over \$8,000,000.

25 Q. What is Nelson Hydro's target surplus that requires an increase in rural rates of 18.17% in addition to the general rate increase of 2.5% ?

26 Q When Nelson Hydro claims 100% of water license fees, has infrastructure in rural areas without paying PILTZ and is using public resources to support its rural and urban Hydro customers what full cost accounting does Nelson conduct to assign benefit from its position as a municipal utility provider?

27 Q. Please provide a list by year for the last 10 years of year-end budget surpluses/deficits. Explain what the surpluses were subsequently spent on.

28 Q Does Nelson Hydro benefit from a portion of provincially assigned Heritage Rates assured to provide low and equitable rates in light of hydro investments made in the province and how if received through purchase from Fortis BC is that applied to customer rates?

Increasing Rates and Service Reliability

Rural customers have no guarantee that increased rates will result in increased reliability

While Nelson Hydro generated 27.7 million in Surpluses over the past 4 years they spent 2.2 Million in vegetation management. The percentage of investment in both real numbers and a percentage of surplus has hydro operations have declined over the past 4 years

29. Q What assurances can Nelson Hydro provide that this trend will not continue?

30. Q. What portion of upgrades to rural pole replacement is shared with Telus. Is that shown as revenue against cost of pole replacement in actuals or forecasts.

31. Q. Was the partnership with Telus required because of the poor condition of Nelson Hydro's poles?

Nelson Fiber and Nelson District Energy

32. Nelson Fiber and Nelson District Energy projects do not benefit rural customers.

33. Q. Is Nelson Hydro covering any portion of the Nelson Fiber project that delivers high speed internet to urban businesses?

34. Q If Nelson Hydro contributes to Nelson Fiber can Nelson Hydro isolate and provide those costs?

35. Beginning in 2012 a portion of (\$300,000) a 5.8% general rate increase was attributed to a district energy project.

36. Q. Please explain the history and collection of hydro revenue collected for and allocated to the Nelson District Energy project from 2012 until present. How would Nelson Hydro rural customers benefit from the investment?

Cost Recovery

37.Q Is the corrected cost recovery for rural customers 97% which is within the acceptable limits for Utilities in BC.? Please refer to letter of comment Nelson Hydro COSA RDA Doyle Doc_6097_E-22

38. Q Does Nelson Hydro carry insurance for wind and snow damage and does it assist to cover costs of pole and line damage such as January 2021?

39. Q Is a financial audit to isolate historic revenue and costs for rural customers possible? To accurately reflect historic costs and revenue a 10 year audit for assurance of financial fact and rural cost recovery would be important before setting a precedent for rural rate increases that exceed those for urban customers because the documentation provided to the public in mail outs ad surpluses versus maintenance past 4 years indicate a confusing financial picture.

40. Q If urban rates stay the same and rural rates increase as per the COSA then the percentage of all costs paid by the rural customer class will exceed those paid by City of Nelson Customers is this correct?

41. Q. Why would rate balancing not create equal cost recovery ratios between all residential customers and all commercial and street light customer?

42. Q The current proposal does not recognize that there is an ebb and flow of investment costs in both the rural and urban setting but isolates years when it attributes high costs to urban areas. What is a better way of rate balancing?

In closing:

There is little argument that the proposed increase will result in a \$300.00 per year or more increase in hydro bills for rural customers over and above other pressures. Fixed incomes to not rise at this rate and people are frightened. By viewing this rate application in isolation we can not determine the proportionality of costs that will be attributed to rural customers over time. Rural commercial customers pay more per KW/h than their urban counter parts. The Nelson Chamber of Commerce advocates for this rate increase yet has members from rurally based businesses and city of Nelson business owners that live rurally. Like everything else within this utility, the interconnectedness of within the Nelson Hydro Subregion makes two separate rates unjustifiable.

