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Via Email

March 18, 2021

Mr. Patrick Wruck, Commission Secretary
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

**Re: Kyuquot Power Ltd. ("KPL") – Revenue Requirements Application (2020) –
Project No. 1599163 – Response to British Columbia Utilities Commission
("BCUC") Information Request No. 1**

Dear Mr Wruck:

Please find attached KPL's response to BCUC Information Request No.1. Also, attached are the spreadsheets in excel format as requested in BCUC Information Request No. 1 16.1

Additional information is available from the undersigned at 416-575-2418 or tdeangelis@synex.com.

Yours truly,
KYUQUOT POWER LTD.

Greg Sunell
For Tanya DeAngelis, Corporate Secretary

Kyuquot Power Ltd.
Revenue Requirements Application (2020)

**KYUQUOT POWER LTD
RESPONSES TO BRITISH COLUMBIA UTILITIES COMMISSION
INFORMATION REQUEST NO.1 TO KYUQUOT POWER LTD. DATED FEBRUARY 26, 2021**

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A. APPLICATION

**1.0 Reference: APPLICATION
Exhibit B-1, Application, p. 4
Approvals Sought**

On page 4 of the Application, Kyuquot Power Ltd. (KPL) states that the Application is to amend its Electric Tariff Rate Schedules and Rate Matters effective the date of the decision from the British Columbia Utilities Commission (BCUC). KPL also states that Supplementary Appendix A includes the draft Order, however, the draft Order is missing from Supplementary Appendix A.

1.1 It is general practice for the BCUC to establish rates for a public utility on a prospective basis (for example, based on forecast cost of service). Given that the majority of the July 1, 2020 to June 30, 2021 test period has been completed, please discuss what considerations this Panel must make in order to approve rates for July 1, 2020 to June 30, 2021 in accordance with its mandate under the *Utilities Commission Act*.

RESPONSE

The Panel does not need to make any considerations for the approval of rates for July 1, 2020 to June 30, 2021. The KPL Revenue Rates Application (2020) (the “Application” or “RRA 2020”) does not make a request for interim rates during the period from the date of Application to the date of decision of the British Columbia Utilities Commission (“BCUC”) regarding the Application.

1.2 Please provide the rates that have been charged to customers since July 1, 2020.

RESPONSE

The rates charged to customers since July 1, 2020 are the tariff schedules as per Order G-111-12 effective

August 20, 2012¹.

- 1.3 Please explain in detail how KPL intends to implement the proposed rate changes, given that the majority of the test period has already passed.

RESPONSE

The rate changes are to be effective on the date of decision of the BCUC in respect of the Application (the "Decision Date"). KPL anticipates that the Electric Tariff rate schedules will be issued by KPL to BCUC on or about the Decision Date and accepted for filing by the BCUC soon thereafter with a stated effective date of the Decision Date.

- 1.3.1 Does KPL intend on submitting a revenue requirement application (RRA) for the July 1, 2021 to June 30, 2022 test period? Why or why not?

RESPONSE

KPL does not anticipate submitting a RRA for the July 1, 2021 to June 30, 2022 test period. KPL submits RRA's depending on the need to adjust rates to maintain its allowable return on equity ("ROE"). Historically, KPL has submitted RRA's less frequently than every 2-4 years.

The forecasts for test year in the Application do not utilize the revenue or expense data from July 1, 2020 to November 30, 2020 ("Interim Period"). For revenue forecasts, the COVID-19 pandemic was expected to affect electricity sales to many, if not all, customers of KPL during the interim period. Sport fishing is the main commercial activity in Kyuquot and mainly extends from June 15 to September 15 of each year. The forecast of the electricity sales in the test year, is based on analysis of historical data. Adjusting this forecast to account for the impact of COVID-19 during the Interim Period was considered by KPL to be of questionable reliability, particularly given the annual fluctuations in electricity sales to individual customers.

The exclusion of actual expense data during the Interim Period should have very limited, if any, effect on the forecast of test year expenses. The key expense categories are BC Hydro charges, Contract Services SXI, Property Taxes and Repairs and Maintenance. The determination of BC Hydro charges and Property Taxes are based on forecast expenditures incurred after the Interim Period and similarly, the bulk of Contract Services - Synex International Inc and Repairs and Maintenance are forecast to be incurred after the Interim Period.

- 1.3.2 How long does KPL intend for this rate to be effective?

RESPONSE

KPL does not have a forecast of the length of time for the rate to be effective. Historically, KPL has submitted RRAs about 2-4 years apart, but each submission date depends on actual changes in revenue and/or expenses and the continuing achievement of the ROE.

- 1.3.3 How can KPL be assured that setting the rates based on the current test period will be reflective of cost and operations of future years?

RESPONSE

KPL commenced operations in May 2006. Since May 2006, KPL has submitted six RRAs in years 2005, 2009, 2012, 2014, 2017 and 2020. All of the RRAs have been based on substantially the same physical assets (the "KPL System") and customers. Schedule 2 of Appendix 1 of the Application demonstrates consistency of cost and operations over the operating period of the KPL System. The current test period includes for continuation of the same physical assets and operations. Accordingly, KPL believes that the forecast cost and operations in this RRA will reflect the cost and operations of future years. When the current forecasts are no longer reflective of cost and operations, KPL will submit a new RRA.

¹ BCUC Order G-111-12

1.4 Please provide a complete list of approvals sought by KPL in this Application.

RESPONSE

The complete list of approvals sought by KPL in this Application is as follows;

- a) Confirmation of utility financials including rate base, depreciation rates, debt rate, return on equity and related items
- b) Confirmation of the amount of Asset Depreciation as at June 30, 2020
- c) Approval for an asset category named Deferred Depreciation Asset and confirmation of the amount of Deferred Depreciation as at June 30, 2020
- d) Approval of an asset category named Long Term Maintenance Asset (“LTM”)
- e) An increase of \$1.00 per month to the Basic Charge under rate schedules 1101 and 1102
- f) An increase of \$0.0272 per kWh to the Energy Charge under rate schedule 1102

B. CONTRIBUTION IN AID OF CONSTRUCTION BY KFCN

2.0 Reference: CONTRIBUTION IN AID OF CONSTRUCTION BY KCFN
Exhibit B-1, Application, p. 6
Department of Indian And Northern Affairs Canada funding

On page 6 of the Application, KPL states that its largest customer, the Ka: ‘yu: ;k’t’h/Ch:k:ties7et/h’ First Nations (KFCN) [or “KCFN”], previously requested the Department of Indian and Northern Affairs Canada (INAC) to provide funding to lower the cost of electricity for the KCFN, which was approved to a total of \$3 million over numerous years. KCFN, KPL, and Synex Energy Resources (SERL) proposed that 85 percent of the grant be paid to KPL and applied as a CIAC. For each \$850,000 of CIAC the electricity rate for the KFCN would be reduced by 6.8 cents/kWh.

2.1 Please advise if KPL has had any discussions entering into any new, similar agreements with KFCN to help reduce the electricity rate for the KFCN. If not, why not?

RESPONSE

KPL has not had any discussions with the KCFN regarding new, similar agreements with KCFN to help reduce the electricity rate for the KCFN. The previous agreement was initiated by the KCFN and the Department of Indian and Northern Affairs Canada (“INAC”) in response to the construction of the KPL system and commencement of KPL operations. At the time, the KCFN anticipated that capital funds could be sourced from INAC to offset the costs of purchasing electricity from KPL. KPL’s role was to seek approval from the BCUC for the consideration of the KCFN funds as a contribution in aid of construction to the utility and the setting of a lower electricity rate for the KCFN in respect of the amounts of potential contributions.

To the knowledge of KPL, KCFN has not recently approached INAC for funds to be provided to KPL to help reduce the electricity tariff rates for the KCFN. KPL does expect that the KCFN have approached INAC and others to cover KCFN costs of electricity purchases/supply and for infrastructure costs for the KCFN electrical distribution system.

C. REVENUE REQUIREMENTS

3.0 Reference: REVENUE REQUIREMENTS
Exhibit B-1, Application, pp. 3–4, 6, 8
TEST YEARS

On page 8 of the Application, KPL states that the test year for rate determination is July 1, 2020 to June 30, 2021. KPL also states:

Test Year A represents the forecast year with the accounting and other changes as proposed this RRA (2020) except not including for any amortization of the Deferred Depreciation or any increases in the Basic Charge or Energy Charge in the tariff schedules.

Test Year B represents the forecast year with all of the proposed charges in this RRA (2020) included being the proposed accounting for depreciation, deferred depreciation, addition of a long term maintenance asset category and changes in the KPL tariff rates.

- 3.1 Please confirm that both Test Year A and Test Year B do not contain any actual results for 2020 or 2021. If not confirmed, please state how many months of actuals are included in Test Year A and Test Year B.

RESPONSE

Confirmed. Test Year A and Test Year B do not include any actual results from Fiscal 2021 (July 1, 2020 to June 30, 2021)

- 3.2 Since the Test Year forecast was prepared, please discuss whether the actual results would cause KPL to consider requesting a change to any components of the forecast.

RESPONSE

For expenditures, the BC Assessment for property taxes for calendar 2021 which was received in January 2021 exceeded the forecast². The estimated property taxes for calendar 2021 are now forecast to be about \$30,000 as opposed \$20,000 as forecast in the application. The large increase in property taxes is a result of earlier omission errors by BC Assessment such that property taxes in prior years are not representative. KPL may consider requesting a change in the test year expense.

The actual electricity sales since July 2021 are within anticipated ranges, particularly when the actual results are during the COVID-19 restrictions whereas the test year assumes no COVID-19 restrictions.

There would be no effect from changes involving LTM expenditures or from the Deferred Depreciation account as both deferral accounts are expected to commence expensing on the date of the decision on the Application.

- 3.2.1 If yes, please provide the impact on the requested rate increases, based on the updated actuals.

RESPONSE

The impact of higher property taxes would be an increase in about \$10,000 to the operating costs of KPL.

D. UTILITY RATE BASE

- 4.0 Reference: UTILITY RATE BASE
Exhibit B-1, Application, p. 9
Additions to Net Assets during the Test Year**

On page 9 of the Application, KPL states:

During the Test Year, there is a forecast allowance of \$50,000 for new powerline construction resulting from anticipated recommendations in the Powerline Maintenance

² Email correspondence between B Hampton, BC Assessment and G Sunell, KPL dated Jan 11, 2018

Plan required under Commission Order G-261-20. Most of the new construction will be needed to improve clearances under the existing powerline.

Also on page 9 of the Application, KPL states:

During the Test Year, there is an allowance for \$50,000 for the Long Term Maintenance asset. KPL is required under Commission Order G-261-20 to prepare a Powerline Maintenance Plan and a Vegetation Management Plan (the "Plans") each approved by a qualified electrical engineer and a certified utility arborist, respectively. The estimated cost of initial preparation of the Plans based on preliminary quotations from third parties exceeds \$35,000. In addition, there is a forecast allowance of \$15,000 for removal of danger trees and related clearing which work is expected to be conducted on a multi-year rotation basis (as compared to the prior and existing annual vegetation management clearing work).

- 4.1 Please provide an update on the Powerline Maintenance Plan and Vegetation Management Plan, including expected cost and completion dates.

RESPONSE

Powerline Maintenance:

The Powerline Maintenance Plan dated November 30, 2020 has been submitted to the BCUC³. The Powerline Maintenance Plan included for completion of Priority 1 items by December 30, 2020, Priority 2 items by May 30, 2021 and Priority 3 items by December 30, 2021. KPL expects to meet these deadlines or later revised deadlines as approved by the BCUC. The Completion Report covering the Priority 1 items was submitted to the BCUC on February 22, 2021⁴. The Powerline Maintenance Plan identified potential low powerline clearances at a number of locations. The low clearance locations are to be investigated in 2021.

The Powerline Maintenance costs to January 31, 2021 was \$62,000 and all costs were allocated to the Long Term Maintenance account ("LTM Account"). Excluding the low clearance issues and potential new transformer replacements, the LTM costs to be completed after January 31, 2021 are approximately estimated at \$60,000 and include primarily the cost of two inspections by the electrical engineer. The costs of resolving the low clearances and transformer replacements are unknown but are expected to exceed \$100,000. These costs will be allocated to capital assets, not the LTM Account, and will be reflected as an increase in powerline capital assets with long service lives.

Vegetation Management:

The Vegetation Management Plan dated December 9, 2021 has been submitted to the BCUC⁵. The Vegetation Management Plan was in two parts, namely, Part 1 Vegetation Assessment and Part 2 Hazard Tree and Hotspot Assessment ("Danger Trees"). Part 1 covered annual vegetation management which is currently included in the annual clearing as per the existing practices. The costs of annual clearing are included in the forecast expense of Repairs and Maintenance. Part 2 covered felling of accumulated Danger Trees. The fellings are required in one of two time periods, within 6 months or progressively over four (4) years. KPL expects to meet the deadlines for felling of Danger Trees.

The Vegetation Management costs allocated to the LTM Account to January 31, 2021 are \$7,035. The LTM work to be completed in 2021 is approximately \$10,000, however, the extent of the work largely depends on the occurrence of future planned outages by BC Hydro or KPL. The felling of Danger Trees is co-ordinated with other planned outages which significantly lowers the overall costs. The future LTM costs over the next 4 years are uncertain but are expected to exceed \$30,000. The estimated costs depend highly on the timing and

³ Kyuquot Power Ltd. – Investigation into the Safety and Reliability of the KPL System Exhibit D-16 Appendix 3B

⁴ Kyuquot Power Ltd. – Investigation into the Safety and Reliability of the KPL System Exhibit D-27

⁵ Kyuquot Power Ltd. – Investigation into the Safety and Reliability of the KPL System Exhibit D-16 Appendix 3A

duration of the work. The future costs of annual inspections by Asplundh Canada ULC (“Asplundh”) are to be allocated to annual maintenance costs not LTM Account.

- 4.2 Please explain if KPL has included any contingency amounts to allow for further recommendations from the Powerline Maintenance Plan.

RESPONSE

KPL is responding to the directives of the BCUC with regard to the Powerline Maintenance Plan. The costs to be incurred are highly dependent on the timing and extent of the BCUC Orders. Accordingly, KPL does not have an overall estimate of the costs of the Powerline Maintenance Plan. Also refer to BCUC IR 4.1 *Powerline Maintenance*. The majority of the future costs are anticipated to be allocated to capital assets with long service lives, not the LTM Account.

- 4.2.1 Please explain how KPL plans to account for any amounts in excess of \$50,000 if the recommendations from the Powerline Maintenance Plan result in spend that is in excess of \$50,000.

RESPONSE

The expenditures from the recommendations in the Powerline Maintenance Plan will result in expenditures in excess of \$50,000. KPL anticipates that the LTM costs to be incurred in fiscal years 2021 and 2022 will commence depreciating effective on the date of the Decision. Depending on the timing of the expenditures incurred, KPL may request amendment of the \$50,000 estimate in the Application prior to the BCUC Decision on the Application. Further, the financial impact may result in KPL filing another RRA during fiscal 2022.

- 5.0 Reference: UTILITY RATE BASE
Exhibit B-1, Appendix 2, pp. 2, 8; Appendix 1B, Schedule 4; Appendix 2C
Amortization of Deferred Depreciation Asset**

On page 2 of Appendix 2 to the Application, KPL quotes the following from BCUC Order G-103-18:

KPL is directed to file its next revenue requirements application by December 1, 2020. This application is to include a depreciation study for its distribution plant assets, which includes, but is not limited to, a plan for the recovery of its total deferred depreciation expense over the remaining useful life of the assets.

On page 8 of Appendix 2 to the Application, KPL states it monitored recent BCUC proceedings in regard to depreciation rates applied to electrical distribution utilities, specifically the British Columbia Hydro and Power Authority (BC Hydro) F2020-F2021 Revenue Requirement Application and the Boralex Ocean Falls Limited Partnership (Boralex) Application for Rates and Terms and Conditions for Service to BC Hydro. KPL states that both of BC Hydro and Boralex confirmed that a depreciation study by recognized experts was not considered necessary or cost effective for the current proceeding, and a depreciation study by recognized experts has thus not been proposed.

KPL then uses Boralex, Alectra, and BC Hydro to derive depreciation rates for each of its asset categories.

- 5.1 Did KPL obtain any quotes for conducting a depreciation study by recognized experts? If yes, please provide details, including quoted costs. If not, please explain why not.

RESPONSE

No. The cost of a depreciation study on powerline assets were expected to far exceed the value to KPL, based on past experience and understandings.

- 5.2 Please discuss if KPL has conducted any internal engineering assessments on the expected remaining life of its assets. If yes, please provide a copy of the assessments. If no, please explain why not.

RESPONSE

KPL has in the past conducted literature reviews of the anticipated life of the assets. The reviews are required, amongst other needs, for the financial auditors for KPL. The assets are long life assets with more than 50% of expected life remaining and have not been subjected to engineering assessments of their remaining life. Further, KPL has not experienced any “end of service life” occurrences.

- 5.3 Please discuss in further detail how comparable KPL’s operating conditions are to Boralex, Alectra, and BC Hydro, the impact these operating conditions has on service life, and how KPL adjusted for these differences in deriving the proposed depreciation rates.

RESPONSE

KPL’s operating conditions are similar to Boralex, Alectra and BC Hydro. The main parameters for pole life are the type of pole, pole treatment and such. For cost reasons, pole suppliers in British Columbia provide poles meeting the current BC Hydro requirements. KPL’s pole requirements (which were also the original Ocean Falls / Bella Bella requirements) were to BC Hydro specifications. Similarly, the pole mounted transformers are a North American utility standard and the submarine cable suppliers utilize standard arrangements.

Given that the both KPL and Boralex powerlines are coastal BC, as is many of BC Hydro’s submarine cables. KPL did not adjust the depreciations rates based on operating conditions.

In Schedule 4 of Appendix 1B to the Application, KPL states that the depreciation rate for the Deferred Depreciation asset is four percent.

- 5.4 Please provide the calculation demonstrating how the depreciation rate of four percent was determined, along with the explanations for any assumptions that KPL applied in determining the depreciation rate.

RESPONSE

The principal KPL powerline asset categories; Overhead Line, Submarine Cable and Distribution Line have service lives of 45 years, 32 years and 40 years, respectively. As of June 30, 2021, the principal assets will be in service for 15 years.

The rate of depreciation on the deferral account is expected to vary over the years in order to eliminate the deferral account as promptly as reasonable without causing undue rate increases. This treatment is expected to be similar to the previous number of KPL Revenue Requirement Applications, which included gradual increases in the depreciation rate of the powerline assets. The initial rate of 4% straight-line depreciation on the deferral rate was selected based on limiting rate increases but the depreciation duration being less than or equal to the average remaining service life of the assets of about 25 years.

Schedule 4 of Appendix 1B to the Application states the balance of the Deferred Depreciation Asset account as \$470,287 as at July 1, 2020. Under the Calculation of Deferred Depreciation in Appendix 2C, the balance of the Deferred Depreciation Asset account is shown as \$458,892.

- 5.5 Please explain the discrepancy between the balance shown in Schedule 4 of Appendix 1B and the balance shown in Appendix 2C.

RESPONSE

The amount shown on Schedule 4 of Appendix 1B is in error. In the table on Schedule 4, the entry under Transformers – Accumulated Depreciation Assets is shown as \$33,075 whereas in Appendix 2C the same entry is \$21,679. The difference of \$11,396 matches the subtraction of \$470,287 less \$458,892.

Upon further review, the Transformer – Accumulated Depreciation Assets as shown in Appendix 2C uses a Transformer Service life of 32 years. In Appendix 2, Table 6-2, the proposed Transformer Service Life is 40 years. Using the 40-year Service Life, the Transformer Accumulated Depreciation Asset at June 30, 2020 calculates as \$17,343 and the resultant balance of the Deferred Depreciation Asset account calculates as \$454,556.

The Deferred Depreciation Asset account balance as at July 1, 2020 should be \$454,556

**6.0 Reference: UTILITY RATE BASE
Exhibit B-1, Application, p. 10
Amortization of Long Term Maintenance Asset**

On page 10 of the Application, KPL states:

The LTM asset is to [sic] costs associated with the preparation of the Plans described elsewhere in this Section 3.2 and for vegetation maintenance costs expected to be incurred on a less frequent than annual basis. The Plans are expected to have a service life of 4 years which corresponds to the service life of the annual vegetation management carried out over the past 10 years. The approach over the past 10 years is to partition the powerline into 4 sections of about equal length and to manage the vegetation in one section each year on a rotating basis. The four year rotation approximates the growth period for new trees and bushes to reach interference levels with the powerline. The proposed amortization rate for the LTM asset is 25% per annum straight-line.

6.1 Please confirm if the Long Term Maintenance Asset is considered an asset for financial reporting purposes.

**RESPONSE
Confirmed.**

6.1.1 If confirmed, please explain how it is amortized for financial reporting purposes.

RESPONSE

The asset is created by a maintenance activity that improves the assets but that improvement has a shorter service life than the service life of the underlying asset. The service life of the Long Term Maintenance Asset, for financial reporting purposes, is proposed at 4 years and is subject to confirmation of the auditors of Synex International Inc..

6.1.2 If not confirmed, please discuss if these costs should be recorded in a regulatory deferral account instead.

RESPONSE

Refer to KPL's response to BCUC IR1 6.1

6.2 Please discuss in detail why KPL has chosen to capitalize vegetation management costs instead of expensing them each year.

RESPONSE

KPL expenses the annual cost of vegetation management. In November 2020, under the directive of the BCUC, a Vegetation Management Plan was prepared by Asplundh. Asplundh recommendations are in two

parts. Part 1 recommended annual vegetation maintenance in the same manner as KPL's existing vegetation management and Part 2 recommended the removal of Danger Trees over a four year period. KPL forecasts that it will complete the Danger Tree removals at irregular intervals over the next four years after which subsequent nominal Danger Trees will be identified annually and included in the annual vegetation management plan. KPL has proposed to capitalize the Danger Tree removal over the next four years and to depreciate the account at 25% per annum with depreciation commencing at the time of the Decision on this application.

6.3 Please provide a copy of KPL's capitalization policy.

RESPONSE

Refer to BCUC IR 6.2

6.4 Please provide the forecast amount for vegetation management for the test period, and compare to the actuals for the past three years.

RESPONSE

The vegetation management costs are included in the Repairs and Maintenance category. The annual payments to local contractors for vegetation management (clearing contracts) for fiscal years 2018, 2019 and 2017 were \$11,401, \$5,400 and \$6,625 respectively. The forecast for clearing contracts for the test year is not separately identified in the Application. However, as the Repairs and Maintenance forecast for the test year is consistent with historical results, the forecast includes similar costs for clearing contracts as in prior years.

6.4.1 Are vegetation management costs expected to be the same for each of the three years subsequent to the test year, or will the expected costs for the next four years vary? Please explain.

RESPONSE

The vegetation management costs for the three years after the test year should be similar to the historical costs as the work plan is unchanged. The work plan includes for slashing about one-quarter of the powerline length annually. The vegetation management costs to be incurred for the Danger Tree removals are to be included in the LTM Account and depreciated separately.

E. CAPITAL STRUCTURE, FINANCIAL COSTS AND INCOME TAXES

7.0 Reference: CAPITAL STRUCTURE, FINANCIAL COSTS AND INCOME TAXES
Exhibit B-1, Application, pp. 10–11
Financial Costs

On pages 10-11 of the Application, KPL states:

KPL has arranged Credit Agreements with the Canadian Western Bank (CWB). The original Credit Agreement was reviewed and accepted under Commission Order G-132-06. As accepted under Commission Order G-105-13, the Credit Agreement was amended effective July 31, 2013 to fix the interest rate payable to CWB at 4.88% until expiry of the fixed interest rate term of July 31, 2016. Commission Order G-158-14 accepted a continuation of the terms of Commission G-137-09, including an interest rate on the notional debt equal to the CWB interest rate plus 0.50% for the loan guarantee of Synex International Inc., Synex Energy Resources Ltd., and Sigma Engineering Ltd. (the "Affiliated Companies"). The Commission Order G-97-16 accepted KPL's application on June 23, 2016, to amend the lending agreement to fix the interest rate payable to CWB at a rate not to exceed 5.04% with a ten year amortization period. The interest rate payable to CWB was 4.67% with a term ending July 13, 2020.

Effective July 13, 2020, the fixed rate term of the Credit Agreement expired. The Credit Agreement provides for a floating interest rate 2.0% above the CWB Prime Commercial Rate (currently 2.5%) in the absence of a fixed interest rate. The current CWB interest rate is 4.50%, which is lower than the previously fixed rate of 4.67%. Due to the ongoing coronavirus pandemic, the current CWB Prime Commercial Rate is not expected to vary significantly. According, the KPL interest rate for the Test Years is 5.0% (4.5% plus 0.5%) on notional debt of 60% of Rate Base.

- 7.1 Please confirm if KPL has entered into a new agreement with CWB for the floating interest of 2.0 percent above the CWB Prime Commercial Rate.

RESPONSE

Not confirmed. The new debt financing of KPL is to be coincident with the new debt financing on the power plants of Synex Energy Resources Ltd., the parent company of KPL. A News Release of Synex International Inc. dated March 4, 2021⁶ states “The Company [Synex International Inc.] continues to work towards the refinancing of its power plant assets, which, once completed, is expected to provide stronger cashflow as a result of reduced interest expenses and longer amortization periods. The Company expects to complete the refinancing in April 2021. “. For the interim period from July 15, 2021 to date, the interest rate disclosed in the quarterly financial filings of Synex International Inc.⁷ state the current interest rate as “4.67% compounded monthly”. The current CWB Prime Commercial Rate plus 2%, as included in the Application, is 4.50%, compounded monthly.

- 7.1.1 If confirmed, please confirm that BCUC approval is required for the new agreement, and provide details to the financing approvals sought.

RESPONSE

Refer to BCUC IR 7.1

- 7.2 What is the current fixed interest rate available from CWB, if KPL were to enter into another fixed rate agreement?

RESPONSE

The current fixed interest rate is not available.

- 7.3 Please explain if KPL has explored debt rates with other lenders. If not, why not?

RESPONSE

Refer to BCUC IR 7.1

- 7.4 Please clarify whether KPL plans to enter into another fixed rate term with CWB or any other lenders?

RESPONSE

Refer to BCUC IR 7.1

On page 11 of the Application, KPL states:

The proposed rate of return after taxes on notional debt is 9.50%, which is calculated as the low-risk benchmark utility rate of 8.75% plus a risk premium of 75 basis points above the low-risk benchmark. This rate of return is equivalent to the recent Commission Decision and Order G-270-20 in regards to the Application by Boralex Ocean Falls Limited

⁶ SEDAR – Synex International Inc. Mar 4 2021 News Release - English

⁷ SEDAR – Synex International Inc. Feb 10 2021 Interim financial statements/report

Partnership Application for Approval of Rates and Terms and Conditions for Service.

KPL further states: “KPL has been approved for a notional capital structure of 60% debt and 40% equity. KPL proposes to continue this notional structure.”

7.5 Please provide the calculated earned return in dollars, using the proposed return on equity (ROE) of 9.50 percent for the test period July 1, 2020 to June 30, 2021.

RESPONSE

The earned return on notional equity for the test year is \$51,206 as shown in Appendix 1 Schedule 1 of the Application. The test year is not directly equal to the period July 1, 2020 to June 30, 2021.

7.6 Please provide, in table format, the actual earned return for KPL for each of the past 5 years.

RESPONSE

The earned return on notional equity for the past 5 years is as follows;

Fiscal Year ended June 30	2016	2017	2018	2019	2020
Return on Notional Equity	\$79,469	\$63,462	\$84,516	\$22,113	\$ 9,396

7.7 Please provide a detailed comparison of the risk profile of KPL compared to the risk profile of Boralex, and discuss why an ROE of 9.50 percent (8.75 percent plus a risk premium of 75 basis points above the low-risk benchmark) is applicable to KPL.

RESPONSE

KPL and Boralex both operate electrical utilities in rural BC. A comparison of the utilities is as follows;

	KPL	Boralex⁸	Other comments	Risk Comparison
Physical Plant				
a) Generation	Purchases from BC Hydro	Older storage hydro-electric plant	Boralex has additional capacity available at limited cost	Operating risk higher for Boralex but considerable spare capacity for short term equipment failures Electricity supply cost higher for KPL KPL has significant cost for additional capacity
b) Powerline	44km of single phase 14.4 kV wood pole construction	45km of three phase 25 kV wood pole construction		KPL access to 50% of length beside permitted access road Off-site KPL

⁸ Boralex LP Application dated September 30, 2019 to BCUC for Rates and Terms and Conditions Exhibit B-1

				contractors can access by road and water taxi. Off-site Boralex contractors require air travel plus road/water taxi
	8 km of one single phase 14.4kv submarine cable	1.6 km and 225m of four single phase 14.4kV submarine cable	All submarine cables are located in salt water channels	KPL has no redundancy in case of cable failure Boralex can operate by abandoning one cable in case of single cable failure
c) Rate Base Assets	\$1.5million (RRA 2020)	\$12.8million (in Application but not accepted)		
d) Planned Capital Upgrade in Test Year	\$100,000	\$7.4million		
Utility Customers				
a) Related Parties	None	None	Both utilities are stand-alone (not serving a facility owned by a related company)	
b) Annual electricity sales	1,800 MWH \$460,000	23,000 MWH \$3.3 million		Boralex data for 2019
c) No and size of customers by kWh	Houpsitas (74%) School District (10%) 18 Commercial (13%) 22 Residential (3%)	BC Hydro (56%) Industrial (40%) Retail (4%)		Boralex data for 2019. There are 2 industrial accounts and unstated number of retail accounts.
d) Customer Location	All customers except 2 at end of powerline	BC Hydro serves Bella Bella at end of powerline		

The business risks are considered higher for KPL. KPL is subject to risk of extended failure due to single submarine cable. Further, the operating cost vs revenue ratio is lower for KPL which provides greater variance in event of high operating cost events. For revenues, Boralex receives 81% from BC Hydro whereas KPL receives 61% from KCFN Houpsitas and 15% from School District 84 (the school students are essentially from Houpsitas)

7.8 As an alternative to setting an allowed percentage ROE and deemed capital structure for KPL, please discuss the pros and cons of allowing a fixed return (e.g. \$XXX per year) to provide a fair

compensation to the utility. Is KPL aware of any regulated public utilities in Canada that are compensated under this approach? Please provide examples, and explain whether this approach is appropriate for KPL.

RESPONSE

KPL is a very small, high risk utility. The existing notional capital structure is 60% debt and 40% equity. The actual bank debt ratio for KPL at about 40% is significantly below the notional structure. Further, KPL is not able to secure debt without parent company guarantees.

KPL has done limited capital improvements since commencement and no significant capital improvements are planned. The Gross Plant as shown on Appendix 1 Schedule 3 was \$3.784 million at June 30, 2008 and \$3.956 million at June 30, 2020. The Contribution in aid of Construction (“CIAC”) of \$2.55 million was fully received by KPL by June 30, 2012.

For Fiscal 2013 and later, the allowable earned return of KPL has been relatively stable with only minor variations in the debt interest rate and equity return rate. The actual return to KPL, excluding the notional structure, is the total return on debt and equity less the actual KPL debt costs. The actual return to KPL has been more variable than the allowable earned return of KPL due to changes in KPL bank debt.

KPL is not aware of other regulated public utilities in Canada utilizing a fixed return approach and is unable to provide examples. For KPL, use of a fixed notional structure provides a “fixed” return, albeit subject to changes due to prevailing interest rates and allowable returns on equity.

- 7.9 As an alternative to setting an allowed percentage ROE and deemed capital structure for KPL, please discuss the pros and cons of setting an allowed return on rate base to provide a fair compensation to the utility. Please explain whether this approach is appropriate for KPL.

RESPONSE

Under the existing notional capital structure for KPL, KPL receives an allowed return on rate base subject to changes in debt interest rates and equity return rates. For ease of presentation, KPL would consider a simplified approach of setting an allowed return on rate base, subject to the inclusion of debt interest rates and equity return rates appropriate to KPL.

KPL is a very small utility and would be very concerned with the setting of “industry standard” debt interest rates since KPL’s actual debt rates are much higher than larger utilities. KPL believes that the current use of a 75 basis point increase in ROE for a “high risk” utility does not fully account for the increased risk of the very small size of KPL. KPL has not challenged the fairness of the 75 basis point increase in the past as the cost of challenging the determination by the BCUC would more than offset the gain from a potential increase. For example, the estimated cost of RRA 2020 of \$15,000 has been controlled in order to avoid rate impacts to the KPL customers.

- 7.10 As an alternative to setting an allowed percentage ROE and deemed capital structure for KPL, please discuss the pros and cons of setting an allowed return on other factors, such as using a proxy of X percentage over the revenue requirement or operating costs, to represent a fair compensation to the utility.

RESPONSE

The revenue requirement of KPL of \$469,367 as shown in Appendix 1 for Test Year B can be broken down into the following four components;

- a) \$155,521 Operating expense excluding electricity purchases from BC Hydro**
- b) \$158,092 Electricity purchases from BC Hydro**

- c) \$ 63,328 Depreciation and amortization
- d) \$ 92,425 Return on Rate Base (includes interest on debt and return on equity)

The combination of Depreciation and amortization and Return on Rate Base equals \$155,753 which approximates the available KPL cashflow excluding KPL debt service costs.

KPL is uncertain of the details of the alternatives of using a percentage of revenue requirement or operating costs and cannot comment on the applicability. As a very small utility, KPL is hesitant to engage significant time, effort and costs in creating an alternative model for ROE regulation.

- 7.11 On January 18, 2021, the BCUC issued a notice initiating a Generic Cost of Capital (GCOC) proceeding for all public utilities.⁹ Please discuss the pros and cons of separating out the Cost of Capital component in this Application pending GCOC review.

RESPONSE

BCUC Generic Cost of Capital Exhibit A-1 (the “Notice to Utilities”) includes the statement “By this letter, the BCUC advises ... will be initiated in the spring of 2021 for rate setting effective January 1, 2022.” This Application by KPL is anticipated to complete well before January 1, 2022. KPL believes that the time, effort and cost of separating the Cost of Capital component in this Application need not be incurred at this time.

8.0 Reference: CAPITAL STRUCTURE, FINANCIAL COSTS AND INCOME TAXES Exhibit B-1, Appendix 1, Schedule 4 Income Taxes

In Schedule 4 of Appendix 1 to the Application, KPL shows income tax expense of \$0 both historically, and in the Test Years. This appears to be due to the line item “Timing Diff.”

- 8.1 Please explain what makes up the timing differences, and why they result in a taxable income of \$0.

RESPONSE

Refer to Appendix 1G Income Tax Return (2019). The initial corporate financing arrangement of KPL included for Synex Energy Resources Ltd., the parent company, to purchase the shares of KPL for \$1 and to finance the remainder by intercompany lending at intercompany lending rates (which are below normal market rates). This corporate structure remains in effect. When available, KPL supplements the intercompany loan with financing through bank lending.

The income tax returns for KPL reflect lower earnings than the notional Return on Equity shown in Appendix 1. In addition, the income tax returns substitute Capital Cost Allowance in place of Depreciation. KPL for rate setting purposes did not apply depreciation for a number of years. For income tax purposes, KPL has utilized sufficient CCA in order to reduce taxes payable to “Nil”. The item termed “timing diff” adjusts for these two factors.

- 8.2 Does KPL account for income taxes on a cash basis?

RESPONSE

KPL does not account for income taxes on a cash basis, however reconciliation of future income tax liabilities between revenue rate applications and financial statements have been too prospective for analysis. During the period, in addition to the issue of intercompany debt rationalization, KPL has changed from Canadian GAAP to International Financial Reporting Standards.

⁹ [BCUC Generic Cost of Capital proceeding](#)

8.3 Please explain if KPL expects to pay any income tax in the future. If so, when? If not, why not?

RESPONSE

Refer to Appendix 1G Income Tax Return (2019). As per Schedule 8 in 1G, the CCA claimed is \$72,801 whereas the maximum CCA available is \$105,043. The unused available CCA in 2019 was \$32,242. In addition, the interest rate on intercompany loans from Synex Energy Resources Ltd. to KPL is expected to be increased on an “ability to pay” basis, at the time KPL’s cashflow increases.

KPL filed its income tax return for 2020 in late December 2020¹⁰. That return included for taxes payable of \$Nil and included a loss carry forward of \$77,043 to be applied against future income taxes. KPL does not expect to have taxes payable for the foreseeable future.

F. OPERATING AND MAINTENANCE COSTS FOR THE TEST YEAR A AND B

**9.0 Reference: OPERATING AND MAINTENANCE COSTS FOR THE TEST YEAR A AND B
Exhibit B-1, Application, pp. 11–12
Accounting, Bank Charges, Communications, Contract Services – Legal, Contract Services – External, Delivery, Insurance, Office & Miscellaneous and Travel & Promotion Expenses**

On page 11 of the Application, KPL states that these expenses were forecast for the Test Years by using the average of the past seven years of expense data. KPL also states that all expenses were adjusted to include the accumulated Canadian Consumer Price Index (CCPI) for the year of the incurred expense, and each expense for the Test Years was calculated based on the average of the past seven years after CCPI adjustment, and the average was then increased by the forecast annual inflation rate for the Test Years of 1.16 percent.

9.1 Please discuss in detail if KPL considered adjusting these expenses to reflect any additional expenses that may result from any work necessary to be performed under the Powerline Maintenance Plan and the Vegetation Management Plan.

RESPONSE

KPL has included provision for the additional expenses that may occur from work to be performed under the Powerline Maintenance Plan and the Vegetation Management Plan (the “Plans”) to be included in an asset account titled the LTM Account and to be depreciated over 4 years commencing on the Decision regarding this Application. This Application includes for a forecast LTM depreciation of \$12,500 in the Test Year (using the ½ year rule on first year depreciation).

The additional work to be performed under the Plans is the review by third-party qualified professionals and the work to be performed to rectify deficiencies (or in some cases due to the change in standards resulting from the change in qualified professionals).

Refer to BCUC IR1 4.1 and 4.2. Depending on the timing of the expenditures incurred, KPL may request amendment of the \$50,000 estimate in the Application prior to the BCUC Decision on the Application.

9.2 Please discuss if KPL considered any alternate forecasting methods, outline those methods, and explain why they were rejected. Further, please discuss the reason for choosing the current forecasting method.

RESPONSE

¹⁰ KPL – T2 Corporate Income Tax Return

KPL forecast methodology was to use historical costs as the basis for the forecast costs of these categories. The duties and expected work effort in these categories have been unchanged for a number of years. Generally, the costs are incurred intermittently during the year, negating the timing aspect of a further breakdown and analysis the costs. Finally, the expenditures in each cost category are limited such that further refining would not be expected to appreciably change the forecast cost.

- 9.3 Please explain why KPL believes the past seven years is a better indicator of the future rather than the past two or three years?

RESPONSE

Reference Supplementary Appendix 1B Schedule 2 Operating Expense Forecast (the "Tables"). The data in the Tables shows measured annual variation. The factors causing variation can include uneven revenue growth, changes in personnel, fluctuating weather patterns and such. For the revenue projections, which are subject to greater growth rates than these expenditure categories, the historical period used was a combination of 5 year, 6 year and 7 year periods. Expenses are less subject to growth anomalies and the longer 7 year historical period was chosen. Each category was reviewed individually to confirm that the 7 year period was appropriate.

- 9.4 Please explain why KPL adjusted historical expense to include the accumulated CCPI for the year of the incurred expense, and then increased the average by the forecast average inflation rate. In KPL's view, does this equate to double counting inflation? Why or why not?

RESPONSE

In KPL's view this does not equate to double counting inflation. The use of the CCPI was related to determining the expense value for a year to date period ending prior to the time of submission of the Application. The application of the forecast average inflation rate extends the applicable time to the test year period (being the following year after submission of the Application)

- 10.0 Reference: OPERATING AND MAINTENANCE COSTS FOR THE TEST YEAR A AND B
Exhibit B-1, Application, p. 11
Contract Services – SXI, Contract Services – SEL, Contract Services – External and
Printing**

On page 11 of the Application, KPL states that these expenses were forecast for the Test Years by using the seven years of historical expense data and excluding the highest and lowest expense years. All expenses were adjusted to include the accumulated CCPI for the year of the incurred expense, and each expense for the Test Years was calculated based on the average of the selected five data years after CCPI adjustment, and the average was then increased by the forecast annual inflation rate for the Test Years of 1.16 percent.

- 10.1 Please explain in detail the type of contract services offered by SXI and SEL, and provide a detailed explanation of how these charges are determined.

RESPONSE

The services provided by SXI and SEL include operations management, purchasing, billing, recording, accounting and related services required to maintain and operate the utility but excluding the work of contractors such as electrical services, vegetation clearing, site representation and meter reading.

The charges are determined by applying intercompany hourly billing rates to the hours listed on timesheets submitted by SXI and SEL personnel.

10.1.1 If charges are determined using a transfer pricing policy or contract, please provide a copy of the transfer pricing policy or contract between KPL and SXI and SEL.

RESPONSE

The charges are determined from internal intercompany billing rates. The intercompany billing rates are determined based primarily on direct salary, benefits and office space costs, all without markup. The approximate rate by category in fiscal 2020 is Controller: \$125/hr; Accounting: \$64; Administrative \$50

10.1.2 Over the past 7 years, what is the average number of hours per month that SXI and SEL staff have worked on KPL related matters?

RESPONSE

Fiscal Year ended June 30	SXI Average hours per month for year	SEL Average hours per month for year	Total SXI and SEL Average hours per month for year
2015	36.1	5.7	41.8
2016	38.8	5.1	43.9
2017	43.5	7.5	51.0
2018	46.0	38.4	84.5
2019	45.6	38.0	83.6
2020	66.0	5.0	71.0

10.2 Please explain why KPL choose to exclude highest and lowest expense years for these expense categories, but included all seven years of data for other expense categories.

RESPONSE

These expense categories had values with occasional amounts either much higher or lower than average. The variance in particular years may be a result of unusually high or low external events, such as weather caused outages. In order to reduce the annual variability, the potential outlier values were eliminated by deleting the highest and lowest annual value in the last seven years. Other expense categories did not have the magnitude of “outliers” as present in these categories.

10.3 Please discuss in detail if KPL considered adjusting these expenses to reflect any additional expenses that may result from any work necessary to be performed under the Powerline Maintenance Plan and the Vegetation Management Plan.

RESPONSE

Refer to KPL’s response to BCUC IR1 4.1 and 9.1. The additional expenses for work performed under the Powerline Maintenance Plan and Vegetation Management Plan are proposed to be included in the LTM category.

11.0 Reference: OPERATING AND MAINTENANCE COSTS FOR THE TEST YEAR A AND B Exhibit B-1, Application, p. 12 Contract Services – KCFN

On page 12 of the Application, KPL states that *Contract Services - KCFN covers the monthly meter reading and related expenses provided by the local representative, and that in October 2020, the agreement with the local representative was renewed at a monthly cost of \$430.*

11.1 Please discuss if KPL explored pursuing an agreement with any parties other than the local representative.

RESPONSE

KPL has utilized the services of this local representative since commencement of operation in May 2006. KPL did not pursue a change in personnel.

- 11.2 Please confirm that the cost for this account for July 1, 2019 to June 30, 2020 was \$4,800, or \$400 monthly, as presented in Appendix 1B, Schedule 2.

RESPONSE

Confirmed

- 11.2.1 If confirmed, please explain the reasons why the increase of 7.5 percent in the contract was justified.

RESPONSE

The service contract was last renewed on March 15, 2015. The 7.5 percent increase is considered a “cost of living” adjustment.

- 11.2.2 If not confirmed, please provide the monthly cost prior to the renewal of the contract, and explain any increase.

RESPONSE

Refer to BCUC IR 11.2

**12.0 Reference: OPERATING AND MAINTENANCE COSTS FOR THE TEST YEAR A AND B
Exhibit B-1, Application, p. 12
Repairs and Maintenance**

On page 12 of the Application, KPL describes the methodology used to forecast Repairs and Maintenance expense for the Test Years.

- 12.1 Please discuss in detail if KPL considered adjusting these expenses to reflect any additional expenses that may result from any necessary work to be performed under the Powerline Maintenance Plan and the Vegetation Management Plan.

RESPONSE

KPL is not considering adjusting these expenses as the related expenditures are captured under the proposed LTM account.

The work being completed under the Powerline Maintenance Plan and the Vegetation Management Plan is not expected to increase or decrease the number of unplanned outages on the KPL System as compared to the historical number of outages

**13.0 Reference: OPERATING AND MAINTENANCE COSTS FOR THE TEST YEAR A AND B
Exhibit B-1, Application, p. 12; Appendix 1, Schedule 2
Rent**

On page 12 of the Application, KPL states that the use of rental area for storage was discontinued in 2019, and accordingly, the forecast allowance for rent is \$0 for the Test Years. In Schedule 2 of Appendix 1, the line item “Rent” shows an amount of \$1,465 for both Test Year A and Test Year B.

- 13.1 Please explain the discrepancy between the application and Schedule 2 of Appendix 1.

RESPONSE

The statement that the rental arrangement for the spare submarine cable ceased in 2019 is correct. The amount of \$1,465 is a forecast for new storage rental costs based on the requirement for KPL to remove all of its inventory from KCFN lands. The KCFN did not formerly charge any rental storage charges to KPL. These storage charges have not yet been incurred. Page 12 of the Application failed to include commentary on these projected inventory storage fees.

G. NET REVENUE

**14.0 Reference: NET REVENUE
Exhibit B-1, Application, pp. 12–16
Electricity Sales and Cost of Electricity from BC Hydro**

On pages 12-16 of the Application, KPL explains the methodology and presents the forecasts for electricity sales, and cost of electricity from BC Hydro.

14.1 For each of the methods A through F explored for electricity sales as described, please provide the impact on the revenue requirement and resulting requested rate increase if only that specific method was used as opposed to the chosen methodology. For example, what would be the impact on the revenue requirement and resulting requested rate increase if only method A was used, if only method B was used, etc.?

RESPONSE

The impact based on the methodology is shown in Table 14.1 below based on maintaining the Energy Sales Revenue of \$463,549 shown on Schedule 2 of RRA 2020;

TABLE 14.1

Method	RRA	A	B	C	D	E	F
1101 kWh	1283.0	1245.1	1323.6	1266.1	1300.2	1272.1	1293.7
1102 kWh	456.5	488.1	466.5	435.7	460.4	454.0	446.2
Total kWh	1739.5	1733.2	1790.1	1701.8	1760.6	1726.1	1739.9
1101 Rev	\$282,318	\$269,793	\$278,357	\$290,561	\$280,827	\$283,316	\$286,417
1102 Rev	\$181,231	\$193,756	\$185,192	\$172,988	\$182,722	\$180,233	\$177,132
Total Rev	\$463,549	\$463,549	\$463,549	\$463,549	\$463,549	\$463,549	\$463,549
1102 Tariff	\$0.2200	\$0.2167	\$0.2103	\$0.2295	\$0.2160	\$0.2227	\$0.2214

14.2 Please discuss if KPL performed any additional scenario analysis with respect to electricity sales and the cost of electricity from BC Hydro. If not, please explain why not.

RESPONSE

KPL did not perform any additional computations of the cost of electricity from BC Hydro based on varying the forecast electricity sales. The cost of electricity from BC Hydro was determined as the average cost from BC Hydro per kWh of sales of KPL of \$0.09091 multiplied by the forecast of electricity sales of KPL.

The value of cost per kWh for KPL sales was calculated as \$0.09091/kWh, \$0.09178/kWh and \$0.08707/kWh for the fiscal years 2021, 2019 and 2018 (2020 was not calculated due to malfunction of the BC Hydro meter). The changes in value approximate the increases and decrease (in April 2020) of the BC Hydro tariff. Further, a

1% change in the actual cost vs forecast cost results in a \$1,581 change in the cost of electricity which amount is not material. In addition, additional analysis would involve higher level statistical analysis which may have higher degrees of uncertainty.

- 14.3 Does KPL expect any customer load additions, or loss of customer load over the Test Years?
Please explain.

RESPONSE

The number of customers of KPL has remained relatively constant over the past number of years. KPL, after reasonable enquiry, is not aware of any new connection requests, although one customer may decide to split one existing service into two services. The forecast increase in annual electricity sales is anticipated to be from increased demand of the KCFN distribution system at Houpsitas and from other customers increasing their electricity usage.

- 14.4 Please provide the impact on the revenue requirement and resulting requested rate increases or the following scenarios:
- (i) Increase in electricity sales of 10 percent;
 - (ii) Decrease in electricity sales of 10 percent;
 - (iii) Increase in cost of electricity of 10 percent; and
 - (iv) Decrease in cost of electricity of 10 percent.

RESPONSE

For an increase or decrease in electricity sales, the sales revenue and cost of electricity are assumed to be the only affected financial categories. For an increase or decrease in electricity sales, it is assumed to occur at equal percentage on both the tariff schedules (eg 10% increase/decrease in electricity sales to both Schedule 1101 and Schedule 1102 customers). For consistency with the Application, it is assumed that the Schedule 1102 Tariff would absorb all of the rate impacts and the Tariff Schedule 1101 would be unchanged.

The four scenarios are shown on Table 14.4. Refer to Schedule 2 of RRA 2020.

TABLE 14.4

	Schedule 2 Data	Electricity Sales increase	Electricity Sales decrease	BCH rate increase	BCH rate decrease
Increase/Decrease		10%	(10)%	10%	(10)%
1101 kWh	1283.0	1411.3	1154.7	1283.0	1283.0
1102 kwh	456.5	502.1	410.8	456.5	456.5
BCH Costs	\$158,092	\$173,901	\$142,283	\$173,901	\$142,283
1101 Revenue	\$436,482	\$479,291	\$447,673	\$479,291	\$447,673
1102 Revenue	\$282,263	\$279,950	\$284,575	\$298,072	\$266,453
Total Revenue	\$181,220	\$199,342	\$163,098	\$181,220	\$181,220
1102 Tariff	\$ 0.2200	\$0.1984	\$0.2464	\$0.2323	\$0.2077
Change 1102 in \$		(\$0.0216)	\$0.0264	\$0.0123	\$(0.0123)
Change 1102 in %		(9.48)%	12.02%	5.60%	(5.60)%

H. PROPOSED AMENDMENTS TO RATE SCHEDULES

15.0 Reference: PROPOSED AMENDMENTS TO RATE SCHEDULES

**Exhibit B-1, Application, p. 18; BC Hydro 2015 Rate Design Application Decision,
January 20, 2017, p. iv
Effect of Changes to Schedule 1101 and 1102**

On page 18 of the Application, KPL states:

KPL is proposing to meet the increased revenue requirement of this application through an increase in the Energy Charge for Schedule 1102 after allowing for the increased revenue resulting from the increases in the Monthly Basic Charge for the Schedules. KPL is proposing that the Energy Charge for Schedule 1102 be increased to \$0.2202 per kWh from the current \$0.193 per kWh and the Energy Charge for 1101 be unchanged from the current \$0.397 per kWh.

Also on page 18 of the Application, KPL states that:

Based on the average annual consumption of 2,473 kWh in Test Years for a residential account, the annual electricity bill (including basic and energy) will rise from \$1,078 to \$1,090. The proposed annual increase of \$12.00 per account calculates as an average annual increase of 1.1% per account.

KPL then explains: “Based on the forecast energy consumption of 1,283,000 kWh in the Test Years, the annual electricity bill for the Schedule 1102 account will rise from \$247,847 to \$282,625. The proposed annual increase of \$34,778 calculates as annual increase of 14.0%.”

- 15.1 Please discuss in detail if KPL considered any alternatives to limit rate shock (which normally describes an increase of greater than 10 percent) to customers on Schedule 1102.

RESPONSE

KPL did not consider alternatives to limit rate shock to customers on Schedule 1102. There is only one customer on Schedule 1102, namely KCFN. KPL understands that KCFN provides electricity to users within Houspitas at rates that do not necessarily correlate to KPL tariff rates or rate changes. Additionally, the cost of electricity billed by KPL to KCFN has varied considerably over the past few years. As such, the definition of rate shock (in percent) to the budgets of KCFN should be considered higher than 10 percent. The changes in annual billings of KPL to the KCFN under Schedule 1102 is as follows;

Fiscal Year ended June 30	2016	2017	2018	2019	2020
Total Billings	\$201,703	\$221,905	\$232,969	\$226,948	\$240,033
% Increase (decrease)		10.0%	5.0%	(2.6)%	5.8%

An increase of 14% for Schedule 1102 will have budgetary impact for the KCFN, however there has been an average annual increase of 4.8% since July 2016 due to increased energy consumption.

- 15.1.1 Did KPL consider increasing the energy charge for customers on Schedule 1101 in order to minimize rate shock on for customers on Schedule 1102? If not, why not?

RESPONSE

KPL did consider increasing the energy charge for customers on Schedule 1101 to minimize rate shock, however KPL believes that the “fairness” and “affordability” of the tariff supersede the “rate shock” aspects.

- 15.1.2 Did KPL consider implementing the rate change over a period of two or three years in order to limit the immediate rate impact for customers? If not, why not?

RESPONSE

KPL believes that the increased costs of implementing rate changes over a period of two or three years are excessive for the size of the KPL utility. The increased costs, which would be recovered through higher tariffs include the creation of deferred accounts, adjudication on applicable rates of return on the deferred account, adjudication on the depreciation of the deferred accounts and related costs. The cost of this Application would increase in order to resolve all of the issues. The sole benefit to the customer is the ability to “pay later” in order to ease current budgetary constraints.

For the past number of years, the Schedule 1102 tariff has been “unfair” in that the charges are less than the operating costs of the utility. Delaying the “catch-up” of this inequity on the basis of rate shock does not seem appropriate.

- 15.1.3 Please calculate what the annual rate increases would be to Schedule 1102 customers if the rate increase was implemented over a period of two years, instead of one year. Please also provide the resulting bill impact for each year.

RESPONSE

A calculation of the annual rate increases to Schedule 1102 customers is very approximate due to the uncertainty of approvals of the deferred revenue account and the additional costs of the creation and administration of the deferral account as well as the interest costs to be applied to the deferral account.

For the purpose of analysis, it is assumed that 50% of the proposed increase is delayed for one year (the Revenue Deferral account) and 25% of the proposed increase is delayed for two years. The Revenue Deferral Account totals \$25,980 at the end of two years. Further, the Revenue Deferral Account can be increased by \$5,000 to cover the assumed costs of application, adjudication and accounting set-up. The recurring annual cost of the Revenue Deferral Account include for carrying charges of 6.9% (equates to the rate of return on rate base) on the mid-year balance and \$300 for accounting/reporting costs.

The tariff rate payable for the 5 years under each scenario is shown in the following table;

	Schedule 2 Data Test Year	Test Year with 50% Delay in Revenue Increase	Test Year plus 1 (only additional ROE/actting)	Test year plus 2 (only additional ROE/actting)
1102 kWh	1283.0	1283.0	1283.0	1283.0
1102 Tariff Increases	\$0.027	\$0.0135	\$0.0074 Total Inc \$0.0209	\$0.0074 Total Inc \$0.0283
Total Increase per Year in Tariff	\$34,641	\$18,815	\$9,554	\$9,554
1102 \$increase	\$34,641	\$17,320	\$8,660	\$8,660
ROE on Deferred		\$598	\$894	\$894
Accting/Reporting		\$300	None added	None added
Deferral Account		\$22,320	\$30,980	\$30,980

At Test Year plus 3, the Tariff has increased \$0.0283 per kWh as compared to the original increase of \$0.027 per kWh. In addition, there is a Deferral account of \$30,980 which is decreased over 3 years would add an additional \$0.00805 per kWh. In very approximate terms, for the staged 3 year delay in payments, which saves an average increase of about \$0.00943 per kWh/year causes the next 3 years to have an increase of about \$0.01088 per kWh/year (an increase of 15.3%).

The calculations are very subjective with overriding critical assumptions. The key issue is that the costs of delaying payments, i.e. the “carrying costs”, are very high due to administration costs.

- 15.2 Given that a revenue requirement determines a rate change based on the cost of service, and a rate design is the allocation between rate classes, please clarify whether KPL is asking for approval of a revised rate design in addition to changes to the revenue requirement.

RESPONSE

KPL is not asking for approval of a revised rate design. The existing rate design is based on “just” and “reasonable” principles. Also refer to KPL Response to BCUC IR1 15.3

On page 18 of the Application, KPL states:

The current customers under Schedule 1101 includes 23 residential and 19 commercial customers. The average monthly kWh consumption of the residential customers during Fiscal 2020 was 199 kWh reflecting consumption limited to electricity for essential use only. The residential customers have limited capacity to reduce their electrical consumption and are particularly vulnerable to electricity affordability. The largest non-residential customer, School District 84, has largely curtailed community use of the school facilities in order to reduce its electrical billings. The cost of electrical service to the School District is a significant component of the operating costs of the facility. Accordingly, KPL, on the basis of affordability and related concerns is proposing to not increase the Energy Charge under Schedule 1101.

During BC Hydro’s 2015 Rate Design Application proceeding, an intervener group asked the BCUC “to implement a strategy to assist low income ratepayers who are having increasing difficulty paying their electricity bills in an environment where electricity rates continue to rise while many people’s incomes have stagnated.”¹¹

In the BCUC’s final decision for the BC Hydro 2015 Rate Design Application, the BCUC stated that “low-income rates that are unsupported by an economic or cost of service justification are unjust, unreasonable and unduly discriminatory and are therefore not in accordance with section 59 of the UCA.” The BCUC also found no evidence that the UCA provides the BCUC with the jurisdiction to approve a low-income rate in the absence of an economic or a cost of service basis reason.¹²

- 15.3 Given the BCUC’s determination in the BC Hydro 2015 Rate Design Application Decision, please discuss what considerations this Panel must make in order to approve an increase in the Energy Charge under Schedule 1102, but not Schedule 1101.

RESPONSE

The Application by KPL for an increase in the energy charge under Schedule 1102 but not Schedule 1101 is not based on “low income” criteria. KPL does not have access to or monitor income levels of its customers. KPL’s Application is based on consideration of both “just” and “reasonable” criteria.

Rate Criteria for KPL Energy Charges

The current energy charge under Schedule 1101 is \$0.3970 per kWh. KPL believes this rate to be the maximum rate before a number of its customers will commence significantly decreasing their energy use. The significant decrease in energy use will occur due to the customers switching to self-generation via utilizing

¹¹ [BCH-2015-Rate Design Application Decision dated January 20, 2017.pdf, page iv.](#)

¹² Ibid

diesel, propane and/or solar generation or by substitution of electrical heating load, including hot water and related uses by consuming propane or other fuels. Should electricity consumption by Schedule 1101 customers decrease, KPL will need further rate increases to meet its revenue requirements. A downward spiral of Schedule 1101 customer electricity consumption will mean significant increases in the energy rates of the Schedule 1102 customer.

The last energy rate increases for KPL customers was on August 20, 2012. At that time, KPL had been able to limit the rate increase by deferring depreciation on its powerline assets. In 2014, KPL applied to commence depreciation of the powerline assets at 1% per annum. The 1% depreciation rate was set based on level necessary to avoid increasing the KPL's electricity rates. In 2017, KPL applied to increase the depreciation rate of the powerline assets to 2.1% per annum. As in 2014, the 2.1% depreciation rate was set based on the maximum level necessary to avoid increasing the KPL's energy rates. KPL has consistently demonstrated its belief that to maintain reasonable rates, the Schedule 1102 rate is at a maximum, being \$0.397 per kWh.

Many of the Schedule 1101 customers already own and maintain standby generation. The Health Clinic operated by the Vancouver Island Health Authority ("VIHA") did not connect to the KPL powerline until January 2010. From May 2006 to January 2010, VIHA repeatedly advised KPL that it could not afford the KPL electricity rates. As a second example of the reasonable rates issue, KPL understands that School District 84 is contemplating using a solar array to offset some of its existing electricity purchases from KPL¹³. The Kyuquot area is not ideally suited for solar generation but may be affordable at the current Schedule 1102 energy rates or by the provision of third party non-repayable grants. Lastly, a portion of the increased revenue requirements in this Application relate to work efforts to potentially decrease the number and length of future outages. The Schedule 1101 customers have not participated in the Safety and Reliability hearing, except for a few letters of comment. The letters of comment stressed the overriding concern of the cost of electricity¹⁴.

KPL believes that affordable electrical energy for Schedule 1101 customers is in the best interest of all customers. Accordingly, it is more beneficial for both the Schedule 1101 and 1102 customers that the increase in revenue requirements in this Application be borne by the Schedule 1102 customer.

Fairness Criteria for KPL Energy Charges

This criterion relates to the equivalency of rates amongst customer classes. KPL has two customer classes, namely Schedule 1101 and Schedule 1102. Schedule 1102 is KCFN - Houspitas and Schedule 1101 is all customers except KCFN - Houspitas. The electrical energy rates were equal prior to the KCFN providing a CIAC in the eventual amount of \$2.55 million to be applied against the KPL powerline costs. Appendix 2, Distribution Plant Depreciation Study of this Application includes the information on the allocation of the CIAC to certain KPL Powerline assets as well as calculations as to the service life and depreciation rates applicable to the CIAC. The CIAC payments commenced in 2008 and ended in 2012.

Schedule 1101 and Schedule 1102 have an energy charge of \$0.397 per kWh and \$0.193 per kWh respectively. In 2008, the KPL and KCFN agreed that the CIAC would fairly equate to a discount of \$0.204 per kWh from the Schedule 1101 energy rate. The agreement was based on the anticipated energy use of KCFN-Houspitas. The credit per kWh based on the CIAC was approved by the BCUC. During the period from 2008 to 2012 (when the last tranche of the CIAC was received by KPL), KPL's rate structure did not provide for depreciation of the KPL powerline assets or CIAC.

As the powerline assets age, the ongoing depreciation of the KPL powerline assets and CIAC should result in ongoing decreases in the difference between the Schedule 1101 and 1102 rates such that at the end of the service life of the assets, there is no difference between the energy charge for the two Schedules.

¹³ Email from Greg Sunell, KPL to Deane Johnson, School District 84 dated Mon Jan 25, 2021 (4:31pm)

¹⁴ Kyuquot Power Ltd. – Investigation into the Safety and Reliability of the KPL System Exhibits E-2 and E-4

The calculation of the appropriate difference between the energy charges of Schedule 1101 and Schedule 1102 becomes an approximation over time depending on the level of depreciation as well as consideration of the difference between forecast and actual energy mix between the two Schedules. For KPL, the depreciation of the assets has been varied over time and this Application includes for accounting of the variances through a Deferred Depreciation Account. The Deferred Depreciation Account is expected to initially decrease at 4% per annum but to have varying rates of decrease over time. The intended allocation of the benefit of deferred depreciation between Schedule 1101 and 1102 is uncertain.

KPL is providing the following information which provides an approximation of the reasonable differential for the Test Year in this application;

KPL operates a very small system with a limited number of customers. With regard to cost of service, KPL does not allocate expenses to different customer groups.

With reference to the Application, for the test year, the breakdown of revenue requirements are as follows;

	Total in \$	Cost per kWh of sales
Operating expense excluding electricity purchases from BC Hydro	\$155,521	\$0.08940
Electricity purchases from BC Hydro	\$158,092	\$0.09091
Depeciation and amortization	\$63,328	\$0.03641
Return on Rate Base (includes return on debt and equity)	\$92,425	\$0.05313
Total Revenue Requirement	\$469,366	\$0.2698

For equality, with no adjustment for the CIAC, both Schedule 1101 and Schedule 1102 would have an energy charge of \$0.26892. This value would be an upper limit for Schedule 1102.

The fiscal 2020 the difference between Schedule 1101 and Schedule 1102 could be calculated as the revenue requirements saving for the components shown in the following table which allows for the Test Year electrical consumption by Schedule 1102 of 1,283.0 MWh

	Total in \$	Cost per kWh of sales
CIAC Depreciation and Amortization	\$(68,636)	\$(0.0534)
Net CIAC Balance	\$(1,724,407)	
Return on CIAC Balance (includes return on debt and equity) at 6.90%	\$(118,984)	\$(0.0927)
Net CIAC Deferred Depreciation Balance	\$(547,857)	
Return on Net CIAC Deferred Depreciation Balance at 6.90%	\$(37,082)	\$(0.0295)
Calculated Total Difference between Schedule 1102 and Schedule 1101		\$(0.1756)

The total differential of \$0.1756 per kWh applied to the Schedule 1101 rate of \$0.3970 per kWh calculates the Schedule 1102 energy charge as \$0.2214 kWh. This calculation should be a lower limit

for Schedule 1102 as it uses CIAC balances for fiscal 2020 (not test year) and apportions the benefit of the deferred depreciation more equally than could be expected under the BCUC orders. However, the calculation does mostly account for the rising electrical consumption of KCFN-Houpsitas.

Under the just and reasonable rates criteria, the Schedule 1102 energy charge for the Test Year should be between \$0.2214 per kWh and \$0.2698 per kWh. This Application proposes that Schedule 1101 be unchanged and that Schedule 1102 energy charge to be \$0.2202 per kWh, subject to final adjustments.

The KPL proposal meets the just and reasonable criteria for electricity rates of all of its customers.

- 15.4 Please explain, and provide supporting calculations, showing the proportion of costs allocated to (and recovered revenues) for each of Schedule 1102 and Schedule 1101.

RESPONSE

Please refer to KPL's response to BCUC IR 15.3.

- 15.5 Considering sections 59-60 of the UCA, please discuss whether the BCUC has discretion over affordability as consideration to approving rates and rate design for customer classes.

RESPONSE

Please refer to KPL's response to BCUC IR 15.3.

In consideration of rates and rate design, regulators are often guided by certain principles, including: fairness in allocating costs among customer groups, reflective of the cost of service, customer understandability and acceptance, ability to promote efficient price signals and discourage wasteful usage, stability of rates for customers, stability of revenues for the utility.

- 15.6 Please provide a brief description on how the proposed rates and rate design for Schedule 1101 and Schedule 1102 have considered each of the above stated principles.

RESPONSE

Please refer to KPL's response to BCUC IR 15.3.

I. OTHER

- 16.0 Reference: OTHER
Exhibit B-1, Appendix 1, Appendix 1B
Excel Schedules**

KPL provides Appendices 1 and 1B as part of the Application in pdf form.

- 16.1 Please provide Appendices 1 and 1B in excel format, with formulas intact.

RESPONSE

Confirmed. To be provided as a separate document.

- 17.0 Reference: OTHER
BCUC Order G-50-20; KPL Investigation into the Safety and Reliability of the KPL
System proceeding, Exhibit A2-6**

System Stabilization Plan

Directive 5 of BCUC Order G-50-20 states:

Within 7 days of issuance of this Order, KPL is directed to provide the BCUC with its KPL System stabilization plan (Plan). That document shall include:

- (a) A high-level technical assessment of the current KPL system by a qualified engineer;*
- (b) Identified areas of risk to maintaining the KPL System in a stable, operational state for the next 3 months;*
- (c) Action items to address the risks identified in Directive 5(b);*
- (d) A proposed strategy to form a working group with impacted ratepayers, to develop a long-term plan to achieve stability of the KPL System; and*
- (e) A proposed time frame to complete a full safety and condition assessment report (Assessment Report) of the KPL System by a qualified professional engineer. That Assessment Report shall identify any safety hazards or maintenance concerns on all portions of KPL's distribution line, including submarine cables. It shall also include a recommended maintenance plan for future routine maintenance of the KPL System.*

KPL's System Stabilization Plan is included as Exhibit A2-6 in the KPL Investigation into the Safety and Reliability of the KPL System proceeding¹⁵ (a separate proceeding before the BCUC).

17.1 Please provide an update on the progress the System Stabilization Plan.

RESPONSE

KPL submitted a Final Argument regarding the BCUC's Investigation into the Safety and Reliability of the Kyuquot Power Ltd. System on March 8, 2021. The Intervener Final Argument was submitted on March 8, 2021. The KPL Reply Argument was submitted March 15, 2021. The System Stabilization Plan was an early document in the proceeding and has been addressed.

- 17.1.1 Please confirm, or otherwise explain, that the expected costs to complete all items recommended within the System Stabilization Plan have been included in the forecast for the Test Years. If confirmed, please specify where in the financial schedules these costs can be found.

RESPONSE

Please refer to KPL's response to BCUC IR 17.1. The submissions to the proceeding included the Line Maintenance Plan and the Vegetation Management Plan (the "Plans"). Work is continuing with respect to both Plans. The final costs of individual work items cannot be determined until each work item is completed. The forecasts of capital and related expenditures included in this Application are ballpark approximations only.

- 17.2 Please provide a comparison of system reliability before and after the implementation of measures recommended within the System Stabilization Plan. Does KPL see any further room for improvement? Please discuss.

RESPONSE

KPL is not expecting to be able to measure any change in reliability from the ongoing work in the Plans. The number and duration of outages for KPL customers have not measurably increased or decreased since commencement of operations in 2006 and there is no expectation of measurable future increases/decreases. Changes in reliability may occur in the future but it will be difficult to assess whether it is attributable to the Plans. For example, future periods could coincide with less/more intense winter storms resulting in less/more

¹⁵ [KPL Investigation into the Safety and Reliability of the KPL System proceeding](#)

outages. Further, KPL will be unable to assess whether future periods have less or more intense winter storms due to their infrequent nature.