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Utilities Commission

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March 30, 2021

Sent via email/eFile

**NELSON HYDRO 2021 GENERAL RATE INCREASE
EXHIBIT A-6**

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

Re: Nelson Hydro – 2021 General Rate Increase Application – Project No. 1599167 – BCUC Information Request No. 2

Dear Mr. Bouvet-Boisclair:

Further to your above-noted application, enclosed please find British Columbia Utilities Commission Information Request No. 2. In accordance with the regulatory timetable, please file your response no later than Tuesday, April 13, 2021.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

/jo

cc: sspencer@nelson.ca

Enclosure



Nelson Hydro
2021 General Rate Increase Application

INFORMATION REQUEST NO. 2 TO NELSON HYDRO

11.0 Reference: INTRODUCTION
Exhibit B-1, Section 5.3.1, p. 13; Nelson Hydro Cost of Service Analysis and Rate Design Application, Exhibit B-4, Information Request (IR) 42.2.1 Dividend

On page 13 of the 2021 General Rate Increase Application (Application), Nelson Hydro states:

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

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

In the Nelson Hydro Cost of Service Analysis (COSA) and Rate Design Application, in response to British Columbia Utilities Commission (BCUC) IR 42.2.1, Nelson Hydro stated:

42.2.1 *Since the 5.72% proposed rate adjustments for September 1 of each year in 2021, 2022, and 2023 include the 9.25% ROE (if approved), please confirm that any revenue requirements application that covers a test period until August 31, 2024 would not include any returns in the rate change calculations. If not confirmed, please explain.*

RESPONSE: The return on equity being targeted over the noted period is 9.25%. Nelson Hydro will not achieve this return on the Rural assets until the year when the full phase-in is complete (and even then, only if complementary adjustments are also done for changes to annual cost levels). Over the period Nelson Hydro will significantly under-earn this return since the increases are being phased in. Only by calendar year 2024 will Nelson have a chance to earn a full fair return – at that time refinements to the ROE to reflect updated capital markets may be merited.

11.1 Please clarify whether (i) the dividend of \$2.885 million includes the proposed 9.25 percent ROE that is concurrently being sought in the COSA and Rate Design Application, or (ii) is Nelson Hydro proposing to collect the \$2.885 million in this General Rate Increase Application (rates effective April 1, 2021) and in addition the 9.25 percent ROE will be applied separately on September 1, 2021 if approved.

11.1.1 If Nelson Hydro's response is scenario (i), please explain how the 9.25 percent ROE is included in the proposed dividend for 2021. Please provide the re-calculation of the

dividend if the 9.25 percent ROE is excluded.

11.1.2 If Nelson Hydro’s response is scenario (ii), then please explain why Nelson Hydro views that its proposal would yield a fair return for the utility.

**12.0 Reference: CAPITAL
Exhibit B-3, BCUC IR 9.1, 9.2.1, 9.4.1
Capital Budget**

In response to BCUC IR 9.1, Nelson Hydro stated:

...the results of the COSA & RDA will guide Nelson Hydro’s decision making with regard to the Rural service area. Nelson Hydro has identified some significant capital projects that would be to the primary benefit of the Rural service area (see table in response to IR 1-9.2.1). If Nelson Hydro cannot recover its costs and earn a fair return in the Rural service area, it is not viable for these projects to move forward, and as set out in the COSA & RDA the utility would be forced to consider all of its options with regard to the Rural portion of the utility. Accordingly, in the short term, the failure to achieve an acceptable rate design as set out in the COSA & RDA Application will result in a delay of planned capital spending that is primarily to the benefit of the Rural service area. [Emphasis Added]

In response to BCUC IR 9.2.1, Nelson Hydro provided the following table:

Project Name	Projected Date	Projected Cost	Primary Area of Benefit (if any)
Advanced Metering Infrastructure (AMI) Meter Upgrade	2022-2025	\$3,500,000	All
Coffee Creek Transformer	2022	\$1,500,000	North Shore
Granite Tie Breaker	2022	\$350,000	Urban
Mill St. Substation Upgrade	2023-2024	\$2,500,000	Urban and North Shore
60L1 Rebuild	2023	\$275,000	Urban
Power Plant Intake Repairs	2022-2023	\$700,000	Urban
G3 and G4 Excitation Replacement	2022	\$240,000	Urban
Taghum-Voltage Conversion	TBD Pending COSA&RDA Outcome	\$4,300,000	South Shore
New North Shore Substation	TBD Pending COSA&RDA Outcome	\$3,500,000	North Shore

In response to BCUC IR 9.4.1, Nelson Hydro stated:

Yes, to the extent that any project requires the utility to file a CPCN [Certificate of Public Convenience and Necessity] or capital expenditure application, Nelson Hydro will do so at the appropriate time.

- 12.1 Please confirm if Coffee Creek Transformer’s projected cost is \$1,500,000 or \$150,000.
- 12.2 Please elaborate what Nelson Hydro means by “all of its options with regard to the Rural portion of the utility” if Nelson Hydro views that it “cannot recover its costs and earn a fair return in the Rural service area.”
- 12.3 Please explain what other options are available if the Taghum-Voltage Conversion and New North Shore Substation do not go forward. Please include an explanation of the implications that may result from postponing or delaying these projects.
- 12.4 Please explain the internal process Nelson Hydro would conduct to determine if a CPCN filing

would be required for any capital projects. Please include if and/or when legal counsel would be consulted and any review of applicable laws and acts.

12.4.1 Given the information available at this time, please discuss whether Nelson Hydro believes the Coffee Creek Transformer, Mill St. Substation Upgrade, Taghum-Voltage Conversion and New North Shore Substation will require a CPCN. Please explain why or why not.

**13.0 Reference: APPLICATION
Exhibit B-3, BCUC IR 1.1, 1.2, 1.2.1, 1.2.1.1
Rate Implementation**

In response to BCUC IR 1.1, Nelson Hydro stated it “would likely propose that the general annual rate increase for 2022 be implemented on January 1, 2022.”

13.1 Please clarify if Nelson Hydro intends to implement the general annual rate increase for 2022 on January 1, 2022.

13.1.1 If so, please include the timing of when Nelson Hydro expects to submit an application.

13.1.2 If so, please indicate whether Nelson Hydro will adjust the revenue requirement due to a change in implementation date for a general annual rate increase for 2022 to January 1, 2022 from April 1, 2022.

In response to BCUC IR 1.2, Nelson Hydro confirmed the “proposed 3.32 percent rate increase from April 1, 2021 through December 31, 2021 is based on revenue requirement projections until 2021 calendar year-end.”

Nelson Hydro further stated in response to BCUC IR 1.2.1 that:

It appears very unlikely that the utility would over-recover revenue if the 3.32 percent rate increase were to continue beyond January 1, 2022

[...]

2022 is a new fiscal year for Nelson Hydro and the utility is already anticipating budgetary deficits for 2021 due to recent storm events.

13.2 Notwithstanding whether Nelson Hydro would over-recover or under-recover revenues based on recent data, please discuss whether Nelson Hydro’s compounding methodology will lead to an over-recovery of revenue, all else being equal, for the period of January 1, 2022 to March 31, 2022 if the proposed compounded 3.32 percent rate increase, which is based on projections for the 2021 calendar year, is implemented.

**14.0 Reference: APPLICATION
Exhibit B-3, BCUC IR 2.1, 2.3
Customer Service Software Upgrade**

In response to BCUC IR 2.1, Nelson Hydro stated that the software “is amortized over five years (consistent with the City’s Tangible Capital Assets Policy) and the asset would be rate based for future ROE purposes.”

14.1 Please confirm, or explain otherwise, if Nelson Hydro anticipates investing in new software in five years.

- 14.2 Please clarify when Nelson Hydro intends to add the software asset to the rate base for future ROE purposes.

In response to BCUC IR 2.3, Nelson Hydro stated:

A full cost analysis has yet to be completed, but it is expected that significant savings will be realized on mailing and postage costs, as well as from reduced staff time associated with printing and preparing bills for postage. Actual savings will depend on the uptake of customers switching to paperless billing, but for reference, Nelson Hydro has spent an average of \$75,000 per year in postage and mailing costs over the past three years. At a 20 percent uptake in e-billing in the initial stages, a \$15,000 savings would be realized on external costs, not including internal staff time.

- 14.3 Please explain if the full cost analysis has been completed.
- 14.3.1 If available, please discuss the expected net incremental cost or net savings from e-billing instead of printing.
- 14.3.2 If not yet available, please advise when a full cost analysis is expected to be completed.
- 14.4 Please provide Nelson Hydro's expected uptake in e-billing in the initial stage as well as the expected average uptake in e-billing at each stage thereafter.

**15.0 Reference: OPERATIONS
Exhibit B-3, BCUC IR 5.8, 5.9.2
Reliability and Power Outages**

In response to BCUC IR 5.8, Nelson Hydro stated:

Nelson Hydro has communicated its concerns regarding reliability challenges to FBC. Specifically, Nelson Hydro has raised the need for further vegetation management on the part of FBC related to the Coffee Creek transmission line. This communication was directed to the FBC Control Room Operations Center Supervisor who made no commitments but informed Nelson Hydro that FBC would take the input into consideration. Communications relating to this matter with FBC are on an as-needed basis and have also been raised during scheduled meetings regarding the Joint Operating Order between the two utilities.

In response to BCUC IR 5.9.2, Nelson Hydro stated:

In 2020 48 percent of Nelson Hydro outages were caused by loss of supply from FBC and 95 percent of the time the outage was caused by trees and wind impacting their lines. This has a significant impact on Nelson Hydro customers as many are fed directly from FBC.

- 15.1 Please discuss any action Nelson Hydro has taken, in addition to communicating concerns referenced in the IR 5.8 response, to address reliability challenges with FortisBC Inc. (FBC).
- 15.2 Please specify if there are any clauses or references in the Joint Operating Order with FBC that relate to reliability and vegetation management expectations.
- 15.2.1 For each item separately, please provide a brief description of the clauses or references.
- 15.2.2 If there are no clauses or references, please explain why not and explain if they can be negotiated for addition.
- 15.2.3 Please confirm if there are any other operating orders or agreements between Nelson

Hydro and FBC that are used for vegetation management duties.

15.3 Please indicate if Nelson Hydro has filed any formal complaints to FBC as it relates to reliability.

**16.0 Reference: OPERATIONS
Exhibit B-2, 2020-21 Budget Spreadsheet; Exhibit B-3, BCUC IR 5.0 Series
Vegetation Management**

In response to BCUC IR 5.1.1, Nelson Hydro stated:

Nelson Hydro has engaged an experienced consultant, Cathro Consulting, to assist in reviewing Nelson Hydro's vegetation management program and recommending opportunities for improvement.

[...]

The new practices are currently under review by stakeholders and will be adopted for the 2021 vegetation management season.

[...]

Legislative changes that allow utility companies to better protect their infrastructure even where land rights are disputed would help improve this situation.

16.1 If available, please discuss the new practices recommended by Cathro Consulting. As part of the response, please state and provide a brief description of each recommended practice.

16.1.1 Please explain if Nelson Hydro intends to adopt the new practices recommended and the expected costs and/or savings associated with each adopted practice.

16.1.2 If not yet available, please advise when the recommendations from Cathro Consulting will be provided to Nelson Hydro.

16.2 Please discuss the "legislative changes" that Nelson Hydro believes would improve vegetation management. As part of the response, please state and provide a brief description of each legislative change.

16.2.1 For each legislative change, please discuss the expected costs and/or savings.

16.2.2 If applicable, please discuss any action Nelson Hydro has undertaken to implement the legislative changes.

In response to BCUC IR 5.1.2, Nelson Hydro stated:

Nelson Hydro has considered alternatives in its vegetation management approach through its consultant on vegetation management best practices to ensure that it is efficient and cost effective. Nelson Hydro currently believes that utilizing the three-year cycle while also responding to necessary vegetation management and emergency situations is the most efficient and cost effective option given the geography of the different service areas as well as staffing and budget considerations.

In response to BCUC IR 5.2, Nelson Hydro states that "[T]he January 13, 2021 wind storm event resulted in costs of approximately \$370,000."

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

<u>W/O Description</u>	<u>2020 YTD Actual (draft - year end not complete)</u>	<u>2020 Budget</u>	<u>2021 Budget (draft)</u>
Major Storm Repair-North Shore	198,526	-	32,000
Major Storm Repairs-City	67	-	10,000
Major Storm Repairs-SS	11,780	66,000	67,800

- 16.3 Please confirm which third party consults on Nelson Hydro’s current vegetation management practices.
- 16.4 Please elaborate on the alternatives Nelson Hydro considered in its vegetation management approach. As part of the response, please state and provide a brief description of each alternative.
- 16.5 Considering the recent wind storm that occurred on January 13, 2021 resulted in costs of approximately \$370,000 exceeding the entire 2021 budget of approximately \$110,000¹ please discuss the reasons why the three-year cycle continues to be Nelson Hydro’s most efficient and cost effective option.
- 16.6 If available, please provide the square kilometers of vegetation, kilometers of distribution lines and/or number of poles in each service area (Urban, North Shore, South Shore).
- 16.6.1 Please provide the proportion of each metric (square kilometers of vegetation, kilometers of distribution lines, and number of poles) that was serviced in each service area for the past three historical years.

In response to BCUC IR 5.9.3, Nelson Hydro stated:

Anecdotally, damage occurring on private customer property is expected to be a high percentage of the overall total [tree and wind-related damage] because statutory rights of way and MOTI corridors are narrow compared to the height of trees in the area. Larger trees set back from the power lines inflict the most damage when they fall, often causing lines to snap and pole to break. These are the most expensive repairs, especially when completed on an emergency basis.

- 16.7 Please discuss Nelson Hydro’s vegetation management practices for the removal of larger trees identified in the IR 5.9.3 response. As part of the response, please discuss the role and responsibility of Nelson Hydro and of customers on private property.

In response to BCUC IR 5.9.3.1, Nelson Hydro stated:

Nelson Hydro enforces utility clearance requirements from vegetation on Rural customer properties where it holds the appropriate rights of way. Enforcement is an on-going effort but the utility has made improvements in recent years in this regard. The City’s Hydro Services Bylaw No. 3196, Section 9.9, also makes clear that customers are responsible for maintaining clearance of at least 1 meter to secondary voltage lines. During its annual vegetation management activities, hazard trees on customers property are identified and Nelson Hydro works with the landowner where possible to come to a mutually acceptable solution to how the risk will be mitigated. The Vegetation Management Best Practices also provides tools to transfer this risk to the landowner

¹ 2021 Budget Total Major Storm Repair = \$32,000 + \$10,000 + \$67,800 = \$109,800 ~\$110,000.

should they refuse to allow the tree to be removed.

- 16.8 Please clarify whether Bylaw No. 3196 applies to Rural customers.
 - 16.8.1 If not, please confirm what rules are used to maintain vegetation clearance that apply to Rural customers.
- 16.9 Please elaborate on what constitutes as a “mutually acceptable solution” with landowners. As part of the response, please define a “mutually acceptable solution” and confirm if it includes the removal of hazard trees.
- 16.10 Please elaborate on the “tools to transfer this risk” that would improve vegetation management practices for Nelson Hydro. As part of the response, please provide a brief description of each tool.
 - 16.10.1 Please confirm if Nelson Hydro has implemented these tools.
 - 16.10.1.1 If not, please explain why Nelson Hydro has not implemented these tools.

In response to BCUC IR 5.10, Nelson Hydro stated in “2020, Nelson Hydro selected certified utility arborist contractors through a public Request for Proposal process that was posted on BCBid and the City’s website in April 2020.”

- 16.11 Please confirm, or explain otherwise, if the Request for Proposal process to select arborist contractors has been conducted prior to 2020.
 - 16.11.1 If applicable, please provide the number of years between bidding contract processes.
- 16.12 Please explain if the arborist contractors charge Nelson Hydro for work based on a flat-fee structure or on a variable rate structure.

**17.0 Reference: Operating Costs
Exhibit B-2, Nelson Hydro 2018 – 19 Budget Spreadsheet; Exhibit B-3, BCUC IR 7.1.1
Power Purchases**

In response to BCUC IR 7.1.1, Nelson Hydro stated:

The item [NH Export Energy] is expected to be recurring, however the amount fluctuates dramatically depending on weather and other hydraulic conditions. This is why there is no budget value for the 2021 budget.

- 17.1 Please provide the actual values of the NH Export Energy for the past five historical years.

On spreadsheet tab “Operating Summary” of the Nelson-Hydro-2018-19-Budget-Spreadsheet provided by Nelson Hydro as part of Exhibit B-2, Nelson Hydro shows “Export Sales” budgeted for 2018 and 2019.

- 17.2 Please confirm if “Export Sales” in the Nelson-Hydro-2018-19-Budget-Spreadsheet is the same as “NH Export Energy” in the Nelson-Hydro-2020-21-Budget-Spreadsheet.

**18.0 Reference: OTHER
N/A
Financial Statements**

- 18.1 Please indicate whether Nelson Hydro’s financial statements are audited and, if so, by whom.