



Suite 101, 310 Ward Street, Nelson, British Columbia, V1L 5S4

March 30, 2021

British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

**RE: Nelson Hydro – Cost of Service Analysis and Rate Design Application – Project No. 1599166 –
Response to Director Faust's Information Request (IR) No. 1**

Dear Mr. Wruck,

On November 27, 2020 Nelson Hydro filed its Cost of Service Analysis and Rate Design Application. In accordance with BCUC Order G-346-20 (as amended by Order G-57-21) setting out the Regulatory Timetable for the review of the Application, Nelson Hydro respectfully submits the attached responses to Director Faust's IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "Gabriel Bouvet-Boisclair".

Gabriel Bouvet-Boisclair
Deputy Corporate Officer
City of Nelson
Email: dco@nelson.ca | Phone: 250-352-8254

cc: Scott Spencer, Nelson Hydro General Manager
 Kevin Cormack, City Manager

Enclosure

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Nelson Hydro
Cost of Service Analysis and Rate Design Application

RESPONSES TO INTERVENER FAUST INFORMATION REQUEST NO. 1

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

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

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

RESPONSE: Nelson Hydro is seeking a rate of return comparable to those the Commission has accepted for other regulated utilities. For a full review and justification of why Nelson Hydro is seeking approval for a 9.25 percent rate of return, please see the report prepared by the utility's consultants regarding the utility's rate of return (Appendix 6-1 of the COSA & RDA).

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

RESPONSE: Please see the response to BCOAPO IR 1-6.5 with regard to municipal lending limits.

Background and Relevant History:

3.Q Why does Nelson Hydro identify that it is different than privately owned or Crown Utilities and then proceed to compare rates and Return on Equity to Fortis and BC Hydro? Nelson Hydro generates power less expensively than other municipal utilities and perhaps public and private utilities. The position of Nelson Hydro as a utility is conflicted with its position as a

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source of revenue for the City of Nelson. Utilities such as Fortis have governance, taxation and other regulatory requirements that municipally owned utilities do not have.

RESPONSE: Given that there are no other municipally-owned utilities in BC that have generation capacity and service customers outside of the municipality, there are very few true comparatives for Nelson Hydro. Still, the utility is regulated by the BCUC and the BCUC approves the ROE. Therefore, it makes sense to compare the ROE with those of other regulated utilities in BC. With any comparison, it is important to identify relevant differences in order to further inform the analysis. Identifying relevant differences can then be taken into account in the comparison and subsequent conclusions. A full review and justification Nelson Hydro's unique characteristics and how they should impact the ROE is included in the ROE Report prepared by the utility's consultants (Appendix 6-1 of the COSA & RDA).

With regard to the other statements made in the IR 1-3, Nelson Hydro does not have the financial information to compare what the cost to produce power is by FortisBC and BC Hydro on the Kootenay River. The statements made in the Information Request are speculative. Still, Nelson Hydro does not see any reason that FortisBC's and BC Hydro's generation costs would be costlier than Nelson Hydro's costs of generation. In fact, they are likely lower on a per kW.h basis. FortisBC rates have increased as a result of the divesture by Cominco of West Kootenay Power & Light, in 1981 (see COSA & RDA section 3.3, p. 15). The other major factor that has led to higher FortisBC rate is the expansion of its customer base particularly into the Okanagan. This means FortisBC's low cost generation is being spread across many more customers and higher costs energy is required to meet its load. In the early 1900's, well before the City agreed to serve Rural customers, City Council acquired its own generation to shield its citizens against this type of impact.

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

RESPONSE: The above statement is unsupported and not accurate. All Rural infrastructure was developed by the City of Nelson through borrowing or equity investment. Rural customers, are just that: customers. They did not invest in the assets of Nelson Hydro in the same way that FortisBC customers have not invested in FortisBC assets. Whether a Rural resident is a customer of either Nelson Hydro or FortisBC, it was the owner that developed the assets and the customer that paid rates to cover the cost of providing the service and to provide a rate of return to the owner of those assets. See also response to RCIG IR 1-17.1 regarding jurisprudence supporting this position.

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

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RESPONSE: The growth in the City of Nelson from 2006 through 2016 according to the RDCK's 2020 Regional Housing Needs Assessment was 14%. The Assessment projects that the population could grow by 8% from 2016 to 2025, reaching a population of 11,910.¹

For the Rural service area, it would be most appropriate to look at Areas E & F. For Area E, the RDCK's Regional Housing Needs Assessment finds that from 2006 to 2016 the region grew by 1% for a total of 3,920 residents and it is projected that growth will be at 2% from 2016 to 2025 reaching a population of 3,995.²

For Area F the RDCK's Assessment finds that from 2006 to 2016 the region grew by 4% to a total of 4,100 residents and it is projected the growth will be at 7% from 2016 to 2025 reaching a population of 4,390.³

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

RESPONSE: No, Nelson Hydro's own generation is not sufficient to supply Urban customer needs fully. Therefore, the 2019 COSA includes power purchase costs for Urban customers at 29.2% of total energy purchases from Fortis BC [39.1% demand purchases].

As illustrated in Table 6 of the 2019 COSA Report [Appendix 8-1], based on 2015-2019 averages energy purchase from Fortis BC for Urban needs would be approximately 18,510 MWh [23,189 MWh purchases less 4,679 MWh energy sales to Fortis BC/BC Hydro].

It should be noted that absent Rural loads Nelson Hydro would maximize the energy generation value from own generation by matching generation with Urban customer loads.

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

RESPONSE: Although not specifically split out at that time (as the COSA was not yet developed), the debt service was paid for by Urban customers and was one of the main factors in why Urban rates were not reduced and the Rural differential reestablished after Council temporarily increased Urban rates in 1995 to fund capital. The higher Urban rate was needed to fund this debt service. Once this debt was retired and

¹ See https://rdck.ca/assets/Government/Documents/04_Nelson_Community_Summary.pdf.

² See https://rdck.ca/assets/Government/Documents/13_Electoral_Area_E_Community_Summary.pdf.

³ See https://rdck.ca/assets/Government/Documents/14_Electoral_Area_F_Community%20Summary.pdf.

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the Public Service Accounting Board standards came into effect the City was able to develop a proper rate base for the utility and begin reviewing its cost of service. This in turn led to City Council approving a COSA study to ensure rates for customer classes in the Rural and Urban side of the utility were fair and reasonable.

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

RESPONSE: The land belonged to the City of Nelson, which it acquired when it built the power plant at Upper Bonnington Falls.

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

RESPONSE: Nelson City Council, in a letter to the RDCK, dated July 22, 2003 (attached as Appendix 1-9) outlined Council's intent with regard to the boundary expansion and taxation. The boundary expansion recognized that the City of Nelson was funding services that were regional in nature (including parks and recreation, library, airport, visitor information centre, museum), and were not receiving any Rural taxation to support these services. The Province agreed to allow the City to bring in the dams on the Kootenay River into its municipal boundaries to create a small industrial tax base for the City similar to other municipalities (e.g. Castlegar with Celgar). As a result, the taxes that would have gone to the Province are now received by the City. The letters patent restrict the taxation rate to the Provincial rate and the City cannot tax these properties at the normal City rate. Most municipalities that have an industrial tax base are able to tax at the municipal tax rates which are many times higher than what the City of Nelson is permitted to tax the dams at. The letters patent also allowed the RDCK to continue to tax these properties through the existing regional district services even though they were no longer in the Rural area (this is unlike most industrial properties brought into municipal boundaries, where only City would be able to tax).

Further the City agreed to allocate a portion of this new boundary expansion taxation (\$94,200) as well a portion of the Nelson Hydro dividend (ROE) (\$90,000) to the Nelson & District Community Complex (NDCC). This shared benefit of Nelson Hydro dividend (ROE) and boundary expansion taxation, reduced the taxation needed from both Rural and City property owners for this RDCK service. This is an example of where, using local government tools, benefits (dividend/ROE from Nelson Hydro) can be shared directly with Rural residents when they

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participate in the services jointly with their City counterparts through taxation. Another example of this is the library service. See below for a table of how this would work under the boundary expansion model:

		2019 Contribution Based on Nelson Hydro & BE Expansion Contribution	2019 Actual Taxation	Over (Under) Contribution
	Library			
	Gross Expenses	\$ 933,000		
	Other Revenues	-\$ 150,000		
		\$ 783,000		
	Share NH Dividend	\$ 88,166		
	Share of BE	\$ 64,057		
	Total NH/BE	\$ 152,223		
	Net Taxation req'd	\$ 630,777		
% of Assessment				
54%	Nelson	\$ 340,619	\$ 506,274	\$ 165,654
20%	Area E	\$ 126,155	\$ -	-\$ 126,155
19%	Area F	\$ 119,848	\$ 91,708	-\$ 28,140
7%	Area H	\$ 44,154	\$ 32,795	-\$ 11,359
		\$ 630,777	\$ 630,777	\$ -

The current rural taxation shortfall is the result of the service bylaw failing at referendum in Area E.

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

RESPONSE: It appears that this IR may be directed at the BCUC, and not Nelson Hydro.

Still, in an effort to respond to all questions, Nelson Hydro notes that the Commission has extensively explored the water licence reserve payment from Nelson Hydro to the City representing compensation for 265 cfs of water obtained by the City through the Water Rights Agreement (WRA) between the City and BC Hydro. The most complete and recent discussion of this topic by the Commission is in Section 2.2 of Order G-149-18, available at: https://www.ordersdecisions.bcuc.com/bcuc/orders/en/item/315822/index.do#_Toc518892646.

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

RESPONSE: It appears that this IR may be directed at the BCUC and not Nelson Hydro. Nelson Hydro is not able to provide information regarding what the BCUC has or has not done in this regard. However, the COSA & RDA, Section 3.3, does address in detail the history of the Bonnington Falls Powerplant evidencing that the City and City taxpayers invested the funds necessary to develop and maintain the facility.

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

RESPONSE: The COSA & RDA states that at no time did Nelson Hydro ever agree or commit to supplying its own generated power beyond surplus to the Rural residents (see e.g, p. 14 of the COSA & RDA "*at no time did any City Council ever commit to provide the Rural residents with any generation beyond the City's surplus generation*"; see same on p. 54). Nelson Hydro's position has always been that the benefit of its own generated power should be reserved for City taxpayers.

The Light and Power Extension Bylaw No. 367, 1922 specifically referenced an expansion of the City utility in the Rural area. It is attached as Appendix 3-4 to the COSA & RDA. Additionally, the Hydro Services Bylaw and its previous equivalents have included Rural rate pages that reference the Rural area.

The land rights granted to Nelson Hydro through easements and rights of ways are an acquisition of rights from private property owners and do not constitute any agreement with regard to the provision of electricity.

Stakeholder Engagement

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

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

13 Q. Is this possible?

RESPONSE: The referenced survey was mailed out via Canada Post to all customers in both the Rural and Urban service areas. Further notification was provided through social media and the City website. The window of time to respond was slightly less than

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two weeks. The survey was also available online between November 20th and November 28th.

Also, a Nelson Hydro Open House was held on November 6, 2019, two weeks prior to the survey window. It was specifically focused on rate design and indicated that a 17.2% rate increase was required. The presentation can be found at: <http://www.nelson.ca/DocumentCenter/View/3665/2019-Nelson-Hydro-Rate-Design-Explained>.

Nelson Hydro believes that it provided adequate notice and an opportunity for all customers to participate. The reality is that there was much less customer engagement and participation in the fall of 2019 before the current Applications were filed and the utility does not believe additional time or notice would have increased participation or changed the results. The fact that the survey results were received at a time when there were no pending applications likely results in a less partisan response pool. Having said that, the utility will work to provide additional time and notice to its customers for future surveys.

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

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

RESPONSE: Nelson Hydro held its last Open House via the Zoom virtual platform in order to allow for direct customer engagement despite the current pandemic conditions and the importance of complying with the Provincial Health Officer's Order with regard to in-person gatherings.

Nelson Hydro understands that a virtual platform may not be ideal and that some ratepayers may not be familiar with this technology. Having said that, the directions as set out in the notice and advertisement of the Open House clearly provided that attendees needed to register before 4pm on the day of the event. This was designed in order to ensure that the Open House would not experience any technical issues, not to discourage or impede participation. Nelson Hydro does have record of three requests to participate after the 4pm deadline. While the utility could not accommodate these late requests, these individuals were sent a copy of the presentation following the event.

It is also worth noting that participation at these types of Open Houses has never been "robust" despite widespread advertising (social media, local newspaper). In the past, these Open Houses have typically attracted between 5 and 10 ratepayers. The virtual Open House was no different. Nelson Hydro has always advertised its events and welcomes more attendance and engagement from its ratepayers.

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Presentation of Facts

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

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

RESPONSE: Per the current proposals as set out in the COSA & RDA and the General Rate Increase (GRI) Application, there would be two rate increases in 2021.

Nelson Hydro general rate increases are largely driven, especially for the Rural service area, by the FortisBC rate increases. The COSA information presented was to compare the 2020 Nelson Hydro rate, after the full COSA increases, with the 2020 FortisBC rate. This comparison identified that in most cases, the Nelson Hydro Rural residential rate would still be less than the equivalent FortisBC rate. This benefit was greater at lower and especially higher consumption levels. Nelson Hydro also notes that its general rate increases have, for the last several years, been less than FortisBC. At present, FortisBC is projecting general rate increases for 2022, 2023 and 2024 of 3.5%. Based on this Nelson Hydro projected rate increases of 2.5% per year. This would result in Nelson Hydro rates continuing to be more favorable than FortisBC rates and that gap would be increasing.

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

RESPONSE: For the mail-out, Nelson Hydro wanted to accurately represent what a typical customer impact would be for the COSA increase. As a result of the COSA, Nelson Hydro analyzed customer data to understand the impact the increases would have on its customers. The consumption data for all customers in 2019 was reviewed and the amount each customer would pay after the increases was calculated based on 2019 consumption data. During this process it was noted that quite a few residential customers are "super consumers" who are using in excess of 5 times the BC average. On the other end, there are a number of customers who have very low or seasonal use. It is clear these are not "typical customers" and there was a concern that these were skewing the average. The mail-out to rural customers, dated 27 January 2021, used the mean Rural residential customer (i.e. the household that was right in the middle in terms of annual consumption) for the 'typical' Rural customer as it better represents customer consumption.

To further test, that the mean customer, was representative of the typical customer, Nelson Hydro separated the data sets into the top 25% of high consumers, the

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bottom 25% of low consumers and looked at the middle 50% as our “typical” customers. Nelson Hydro is now using this more refined consumption number (the average of that middle group - 893 kW.h) to describe the ‘typical customer’, as it represents the majority of ratepayers. This number supports that the mean used in the mailout fairly represented a typical customer.

This data was submitted in response to the BCUC Nelson Hydro GRI IR 1-1.4 and the breakdown detailing the above is in Appendix 1-1.4. This is available at: https://www.bcuc.com/Documents/Proceedings/2021/DOC_61134_B-3-Nelson-Hydro-response-to-BCUC-IR-No1.pdf.

It appears the Intervener might have used the typical customer multiplied by the number of customers to estimate annual Rural revenues. This would not be accurate. Revenues in the COSA are from the audited financial statements which tie directly to the detailed customer billings for all customer groups. Revenues have not been understated or manipulated in any way. In fact, Nelson Hydro took the time to use actual customer billing data to analyze rate impacts on all of its customers. Rural costs are laid out in the COSA, which again come directly from the 2019 audited financial statements (with adjustments as noted). See Appendix 8-1 of the COSA & RDA, Table 7.

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

RESPONSE: No. In fact, the opposite is the case. The COSA shows, at Table 11 [Appendix 8-1], that the fully loaded costs to serve Rural Residential customers is 12.41 cents/kW.h and \$36.48/bi-month. Instead, at the present time the customers pay only 10.51 cents/kW.h plus \$16.22/bi-monthly. This already takes into account that Rural customers use more power per customer than Urban. Since each unit of energy is priced below cost at the moment, the more units of energy purchased, the larger the deficit becomes.

Also note that at current rates Urban customers pay more on average than Rural customers do, per unit of energy. This is shown in Table 14 of the COSA report (Urban pay 11.6 cents/kW.h while Rural only pay 11.3 cents/kW.h on average). The same is true for the sample customers referenced in the question:

- At average monthly usage of 800 kW.h/month provided in the question an Urban residential customer would pay \$92.2/month with about 9% fixed portion – this would result in an average 11.5 cents/kW.h of energy consumption [\$92.2/800 kW.h].
- In contrast, at average monthly usage of 1,200 kW.h/month provided in the question, a Rural residential customer would pay \$134.2/month with only about 6% being fixed portion – this would result in an average 11.2 cents/kW.h of energy consumption [\$134.2/1,200 kW.h]. This is lower compared to what Urban

customers pay and also lower compared to what Fortis BC customers pay for the level of consumption [estimated at about 14 cents/kW.h based on February 25, 2021 increase].

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

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

RESPONSE: During a Nelson Generating Station failure (assuming the loss of all four generating units), 100% of the energy supplied to NH customers would need to be sourced from FBC. In any other instance, FBC needs to supply the difference between (NH Load – NH Generation) like any other utility in an integrated utility. For additional discussion on how the City is able to account for how it Allocates Generated vs Purchased power please Section 7.2, p. 55 of the COSA & RDA.

Also as noted in IR 1-6, the Urban customer has been allocated a higher demand % to account for the above.

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

RESPONSE: Nelson Hydro does not have this information readily available as a “weekly list” but is able to provide a list showing monthly totals from year 2020 of net purchases from FBC as follows:

Date	Year	Month	Month Hrs	Util Gen Hourly (kWh)	Import (kWhr) FBC	Net Purchase (kWh)	Util Consumption (kWh)
Jan-2020	2020	1	744	6,837,908	11,905,646	11,885,738	18,723,646
Feb-2020	2020	2	696	6,389,989	10,487,674	10,487,674	16,877,663
Mar-2020	2020	3	744	6,791,207	9,498,461	9,495,829	16,287,036
Apr-2020	2020	4	720	6,400,971	7,394,572	6,694,984	13,095,955
May-2020	2020	5	744	10,219,987	2,108,480	1,381,101	11,601,088
Jun-2020	2020	6	720	10,784,323	894,959	(536,149)	10,248,174
Jul-2020	2020	7	744	9,884,600	2,055,211	703,274	10,587,874
Aug-2020	2020	8	744	6,843,026	3,780,954	3,759,366	10,602,392
Sep-2020	2020	9	720	6,609,102	4,408,545	3,587,289	10,196,391
Oct-2020	2020	10	744	6,838,639	7,145,688	7,145,688	13,984,327
Nov-2020	2020	11	720	6,596,986	9,590,798	9,612,944	16,209,930
Dec-2020	2020	12	744	6,909,015	11,430,603	11,430,603	18,339,618

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

RESPONSE: Please see the table below showing the 2019 Residential Rural consumption by month:

Year	Month	Consumption (kW.h)
2020	01	10,983,879
	02	2,126,150
	03	6,541,612
	04	6,261,968
	05	5,418,188
	06	4,384,556
	07	3,682,862
	08	3,424,273
	09	3,528,786
	10	3,582,353
	11	2,068,085
	12	5,583,036
<i>Total</i>		57,585,748

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

RESPONSE: The Nelson Hydro Generation Rates Policy adopted by City of Nelson [March 9, 2020] notes that Nelson Hydro generation is first available to customers within the City of Nelson's municipal boundaries and any surplus will then be made available to Rural customers. This prioritization is done on a monthly time-step basis as shown in the feeder load study [BCUC IR No. 1-12.1 Attachment 1]. This information was used as the basis to estimate Nelson Hydro's own generation energy delivered to Urban customers and Rural customers. As illustrated in the feeder loading study, for the period from 2015 to 2019 the energy delivered to Rural customers ranged between 8.3% and 14.5% to average of 11.1% while 88.9% supplied to Urban customers. The power purchase costs then allocated between Urban and Rural service areas based on percentages shown in Table 6 [which takes load for each service area less power provided by Nelson Hydro own generation].

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

RESPONSE: The Nelson Hydro Generation costs are 100% assigned to Urban customers as they are ultimate owners of the Nelson Hydro assets. As noted in response to question 21, however, a portion of the Nelson Hydro generation was also delivered to Rural customers which Rural customers should pay for. Fortis BC's wholesale energy rate of 4.5 cents/kW.h, was used as that is the value of this energy if sold on the local market (i.e. to Fortis BC). This rate is much lower than the average cost of purchased power from Fortis BC of 7.75 cents/kW.h, that includes all energy, demand and customer charges. It is not an inflation of Rural residential costs, just a means to account for some of the benefits received by Rural customers because Nelson Hydro owns its own generation. See also BCUC COSA-RDA IR1-10.1 for more details on how this is allocated in the COSA and section 4.1 of Appendix 8-1 of the COSA & RDA that provides details of the cost assigned to each service area. Purchased power is also costed differently in the COSA. Urban customers pay a higher percentage of the Fortis BC demand charges than Rural Customers, therefore the average cost of purchased power is higher for Urban. See BCOAPO IR 1-18.2.2. There are no other costs in the COSA that have been allocated to residential Rural customers at rates different than used for Urban.

Figure 9.3 In COSA

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

RESPONSE: Figure 9.3 used a consumption amount of 1,150 kW.h for illustrative purposes. This consumption level has been used in the past to represent a typical customer as it was close to the rural area average and was used in the COSA for consistency.

See also the response to IR 1-16.

Benefits that Ecrum to the City of Nelson

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

RESPONSE: City-owned and managed buildings are subject to the "City of Nelson Service Rate", which is Rate E-1 under the City of Nelson Hydro Services Bylaw. The rate

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page is available at: <https://nelson.civicweb.net/document/25430> on page 25. As Nelson Hydro's generation is allocated to Urban customers first, including municipal buildings, this does not impact Rural customers and is not an additional benefit.

City Council has complete authority to set municipal rates to meet Council's goals and policies. Some tenants in municipal buildings pay rates at the municipal rate if it meets the goals and policies of Council. This is an example of why a postage stamp rate is not applicable to the utility as a whole as it would be inconsistent with the Community Charter by restricting Council in managing its operations to best serve the community.

Q Dividend and Surplus

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

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

RESPONSE: The referenced surpluses in the segmented information in the City of Nelson's consolidated financial statements includes amounts that fund the dividend payment (ROE), water licence reserve, capital reserve, contributions from third parties towards capital and internal costs that are eliminated on consolidation (see BCUC IR 1–40.6). Although shown as one number in the consolidated financial statements it is important to understand that the surpluses are fully allocated for the above purposes, Nelson Hydro does not have any unallocated surpluses and only a portion of these amounts are capital reserves contributions (\$2,877,000 in 2019).

As noted above these "surpluses" primarily support the capital infrastructure program either directly or indirectly (as a return on capital investments). As with other local governments, asset management, is a key policy goal of Council and generating capital is critical. In Nelson Hydro's case, capital infrastructure investments were done with inadequate rate increases in previous years, due to the lack of a COSA, which has now quantified the revenue shortfall.

All local governments are having to raise rates to fund infrastructure shortfalls. In implementing asset management plans, both the City and the RDCK have had to raise rates in many of their services. For example, in the RDCK's Central Resource Recovery Service (Rural and City funded), taxes have been increased by over 60% over a 3-year period, (2018-2021), to meet similar asset management goals. In the mid-2000s, City Council increased the City's water utility rates by over 100% over a 4-year period.

City Council, similar to the Board of the RDCK, has full authority to set capital reserve policies at levels the elected officials feel are appropriate for their

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communities. Elected officials are very cognizant of the impact of rate increases on their residents and the competing need to fund infrastructure renewal. While the capital reserve levels impact Urban rates, it is the capital expenditures that impact Rural rates. Contribution to capital reserves are being funded by Urban ratepayers/taxpayers only. Council does not have authority to require Rural taxpayers/ratepayers to fund capital reserves.

The revenue shortfall in Rural residential rates are not the result of capital reserve contributions but rather are the result of revenues not funding the cost of serving that part of the utility, including a return on equity and amortization.

The required rate adjustment of 18.17% proposed over a three-year period is intended to cover the O&M costs, cost of debt and amortization expense assigned to the Rural service area along with return on investments made by the City. Although Nelson Hydro is proposing return on equity at 9.25%, the effective ROE would be about 6.5% [which is well below what other utilities earn] due to assumed 95% RCC ratio for the Rural residential class. Please see response to RCIG IR No. 1-11.3.

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

RESPONSE: The City pays all taxes and fees in accordance with provincial laws and regulations, including its water licence fees. There is no payment in lieu of taxes for assets in the Rural area as these are provincial rights of way.

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

RESPONSE: See IR 1-25.

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

RESPONSE: The concept of Heritage Rates applies to BC Hydro sales. As taxpayers of the Province, all ratepayers in BC ultimately see some benefit of BC Hydro's Heritage rates. Those ratepayers that are served with their own generation (Nelson Hydro customers or FortisBC customers) see less of a benefit. As FortisBC buys some of its power from BC Hydro, this power makes up part of FortisBC's supply of power. As a customer of FortisBC, Nelson Hydro sees some of this benefit in its costs, which flows through to the wholesale rates FortisBC charges to Nelson Hydro. As such, Nelson Hydro's Rural customers receive benefit from the BC Hydro Heritage rates, as part of this flow through of these rates. Urban customers

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would receive much less since a lower proportion of FortisBC energy is assigned to Urban customers.

Increasing Rates and Service Reliability

Rural customers have no guarantee that increased rates will result in increased reliability. While Nelson Hydro generated 27.7 million in Surpluses over the past 4 years they spent 2.2 Million in vegetation management. The percentage of investment in both real numbers and a percentage of surplus has hydro operations have declined over the past 4 years

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

RESPONSE: See IR 1-25.

With regard to investment in vegetation management, the IR claims that vegetation management spending over the past four years (2017-2020) has been reduced as compared to the preceding four years (2013-2016). In reality, Nelson Hydro has spent \$2.7 million on proactive tree trimming from 2017 to 2020. In the preceding four-year period (2013-2016), an inflation-adjusted \$2.2 million was spent on vegetation management. As evidenced in the GRI Application, approximately 86% of spending over the past four years has taken place in the Rural service area (see https://www.bcuc.com/Documents/Proceedings/2020/DOC_60273_B-1-NelsonHydro-2021-General-Rate-Increase-Application.pdf).

Nelson Hydro also spent approximately \$16 million on capital infrastructure over this time period (2016-2020). This capital was primarily funded from capital reserves.

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

RESPONSE: Nelson Hydro has a joint use agreement with Telus to share costs for the regular replacement of aging joint use poles at a fixed rate per pole. For poles located in the Rural areas, revenues from Telus are shown as a reduction of the cost of Pole Replacements for South Shore and North Shore.

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

RESPONSE: No. The arrangement with Telus wherein both parties has joint ownership in certain poles is an arrangement that has been in place for decades and is to the mutual benefit of both parties and their customers. More specifically, both parties make use of a significant percentage of all of Nelson Hydro's poles and share in the cost of maintaining the poles which reduces rate pressure on Nelson Hydro's ratepayers. This includes testing and treating of poles as well as vegetation management around joint use poles.

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The question may also be referring to the Telus Fibre Arial Make Ready (AMR) project. This involves Telus adding fibre to existing poles, many of which cannot support the additional weight of this fibre, under this agreement when a pole still had useful life under existing conditions, Telus paid the full cost of the remaining life and then its share of the new pole.

Nelson Fiber and Nelson District Energy

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

RESPONSE: It is unclear if Question 32 is asking Nelson Hydro to comment on the referenced projects. To the extent that this is the intent of the question it can only be noted that these projects do not result in any costs being allocated to the Rural portion of the utility.

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

RESPONSE: No. The City of Nelson is fully responsible for Nelson Fiber and no capital, operations or maintenance costs are charged to Nelson Hydro. Nelson Hydro did invest in laying a submarine fibre cable at the same time the Lakeside submarine power cable was installed. This was an investment in the future to ensure that Nelson Hydro has access to fibre on the North Shore as it expands its System Control and Data Acquisition (SCADA) system to its North Shore assets. The cable will be connected to Nelson Fibre in the future and take advantage of its infrastructure. Connecting SCADA to the North Shore will result in improved reliability and reduced outages for this area.

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

RESPONSE: Yes, see response to IR 1-32.

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

RESPONSE: The above statement is not correct. The increase was to cover inflationary cost in the budget (e.g. wages and materials), increase in power purchase costs, dividend increase and contribution to capital reserves. This was an overall utility increase and did not identify the contribution that rural versus urban contributed to these items. This was not possible until the COSA was completed. Although based on the Nelson Hydro's analysis, Rural rates did not contribute to capital reserves.

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

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RESPONSE: None of the costs are allocated or benefits of Nelson District Energy Projects (DES) attributed to the Rural portion of the utility. The only DES project that Nelson Hydro completed was a geo-thermal system in partnership with Selkirk College. Selkirk College utilized grant money to completely fund the project and Nelson Hydro developed the geo-thermal project and manages the system under a fee for service contract. These costs and revenues are accounted for in the Urban side of the utility.

Nelson Hydro did complete some DES studies during this time period and again these costs were charged to the Urban side of the utility. No costs for DES have been included in the Rural side of the utility for the 2019 COSA.

This is an example why a postage stamp rate is inappropriate for the utility as a whole as it would prevent Council from achieving its policy goals, including its climate change goals, by restricting Council from utilizing a key department, Nelson Hydro. This would be inconsistent with the Community Charter.

Cost Recovery

37.Q Is the corrected cost recovery for rural customers 97% which is within the acceptable limits for Utilities in BC.? Please refer to letter of comment Nelson Hydro COSA RDA Doyle Doc_60975_E-22

RESPONSE: Nelson Hydro can't confirm how 97% referenced in the question was determined. Besides, the Exhibit E-22 referenced in the question does not include any calculations that show "corrected cost recovery for rural customers 97%". [https://www.bcuc.com/Documents/Proceedings/2021/DOC_60975_E-22-Doyle-J-Letter-of-Comment_Redacted.pdf]

Please see Appendix 8-1, Table E-1 that shows Rural Residential revenue-cost-coverage ratio at about 80.4%.

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

RESPONSE: The City's property insurance policy provides broad comprehensive coverage and insures against all risks of direct physical damage to insured property such as the Bonnington Falls Generating Power Plant and substations. The property insurance policy does not include coverage for damages to poles and lines (such coverage is prohibitively expensive and the cost-benefit analysis is not in favor of maintaining such coverage).

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

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RESPONSE: The COSA allocates the costs and revenues between the Rural and Urban side of the utility. The City has provided this information to the Utilities Commission, including supporting financial information. The City's financial statements are audited annually and do include the auditors selecting sample payroll records, invoices etc. to determine if they have been charged accurately to the proper account.

The audited reports can be found at <http://www.nelson.ca/Archive.aspx?AMID=38> for the years in question.

The auditors do not audit Nelson Hydro separately or review the allocations between Rural and Urban that were used for the COSA. The City would not be averse to this being done as long as those costs are recovered from Rural rates.

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

RESPONSE: No. The COSA was also completed to provide information to Council to be able to adjust Urban rates to a hybrid cost of service model. This identified that there should be rebalancing between Urban residential and Urban commercial. This would increase Urban residential rates by 12% and reduce Urban commercial by a similar amount. There is a very small revenue requirement shortfall of \$24,000. On the Rural side the revenue shortfall, net, is \$1,492,000. With a COSA fully implemented on the Rural and Urban side, the Rural revenues will be \$8,736,000 with a cost recovery of 96.6% and the Urban revenues will be \$11,634,000 with a cost recovery of 100%. Therefore, the Urban side of the utility will be paying \$2,898,000 more than the Rural side.

Based on the COSA and a historical analysis as presented in the COSA & RDA, the Rural portion of the utility has been underpaying on a full cost of service model for many years. This adds up to millions of dollars in electricity cost savings. The impact of phasing in of COSA rates over 4 years will result in rural residential customers realizing a cumulative savings of approximately \$3,000,000 on their electrical bills over this time period. By targeting 95% this will also result in these same customers realizing ongoing savings on their electrical bills of approximately \$400,000 annually until rates are adjusted to 100% revenue requirement.

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

RESPONSE: The COSA identified an overall revenue requirement shortfall of \$1,492,000 (at a Rural residential RCC of 95% and Rural commercial of 108%). This is a result of a shortfall primarily in the utility not fully recovering its amortization expense and earning an adequate return on equity. Due to the large shortfall in revenue requirement on the Rural residential side, Council has approved the RCC for Rural residential at the lowest end of this range being 95%. After full implementation of

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the COSA increases, this is a revenue requirement shortfall of approximately \$400,000 for Rural residential. Rural commercial is a small customer group and the over recover was \$87,000 in 2019, so no adjustment was proposed. It is the intent of Council to bring Urban rates into the 95% - 105% range of reasonableness. At that time all cost recover ratios will all be between 95%-105%.

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

RESPONSE: Nelson Hydro adjusted the 2019 actual costs for the COSA purposes to reflect “normal” costs year. This includes adjustment to reduce the actual vegetation management costs for Rural service area by \$0.298 million as discussed in response to the BCUC IR No. 1-5.1.1. Without the adjustment the Rural costs for 2019 would be measured to be higher, and the degree of underpayment would be even larger necessitating a larger rate increase.

Nelson Hydro believes that there is no reason to expect that use of 2019 actuals as adjusted would lead to any material problematic or misleading COSA output.

Further, Nelson Hydro’s capital infrastructure program is largely funded through capital reserves and to a lesser extent borrowing. The capital reserve then fluctuates up and down depending on the capital expenditures in any one year therefore it avoids the situation that the Intervenor has raised. This is a best practice that all local governments utilize.

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APPENDIX 1-9



The Corporation of the City of Nelson

letter

502 Vernon Street, Nelson, British Columbia V1L 4E8
Telephone: (250) 352-5511 Fax: (250) 352-2131

From the Office of the

Mayor

22 July 2003

Director Al Dawson and Director Josh Smienk
Regional District of Central Kootenay
FAX: 352-9300 *(Carol Mallawon)*

FAXED
Jul 23/03 17

Dear Directors:

Pursuant to the Nelson boundary expansion that was approved by the Provincial Government on June 19, 2003, the City wishes to affirm the following agreements that were made in anticipation of the boundary expansion. The following represent a commitment by all parties to work cooperatively and with a regional perspective.

The City of Nelson confirms that:

- While the current City Council cannot fetter the discretion of future Councils, it was in a spirit of cooperation that we proceeded with the boundary expansion, with the support and agreement of the Directors for Areas E and F.
- The City agrees that the net boundary expansion taxation will be allocated on a negotiated formula as regional services are established. The following functions will be considered for establishment as regional services: parks and playgrounds; civic centre/arenas; arts and culture services; youth centre; capitol theatre and municipal library.
- The City agrees that a portion of the Nelson Hydro dividend up to \$300,000 will be allocated to these services, on a negotiated formula, as new regional services are established.
- The City agrees that future RDCK services, as they are identified and established will be able to access the assessment base that would have been available to the Regional District, prior to the boundary expansion, with the City's participation in the service and as outlined in the Supplementary Letters Patent.
- The City agrees that the RDCK will continue to receive its allocation of BC Hydro grants-in-lieu, at a level no less than the current amount, subject to the City receiving that amount (or more).

The above is contingent on the Directors of Areas E and F committing to actively pursue, with the City of Nelson, discussions towards regionalization of recreational and cultural services that are presently provided by the City of Nelson.

Sincerely,

A handwritten signature of Dave Elliott.

Dave Elliott
Mayor



BRITISH COLUMBIA

file Boundary
Expansion file

Ref: 93158

MAR 25 2003

Hans Cunningham, Chair
Regional District of Central Kootenay
Box 590
202 Lakeside Dr
Nelson BC V1L 5R4

RECEIVED
MAR 31 2003
CITY OF NELSON

EMAILED
to Council
Kevin Victor

His Worship Mayor Dave Elliott
City of Nelson
502 Vernon St
Nelson BC V1L 4E8

Hans *Dave*
Dear Mr. Cunningham and Mayor Elliott:

I am responding to your January 27, 2003 letter regarding the proposed expansion of the boundaries of the City of Nelson (the City). I am pleased to see that the Regional District of Central Kootenay (the Regional District) and the City continue to work together and have reached agreement on the fundamentals of the scheme. You request that I take necessary actions to entrench various aspects of the proposal through Supplementary Letters Patent or whatever means possible. Let me respond to each of these requests in turn.

1. The Regional District's entitlement to the BC Hydro grant-in-lieu of taxes on the primary generation facilities on the Kootenay River will not be affected by this boundary extension. The Regional District's entitlement is established under a Cabinet regulation pursuant to the *British Columbia Hydro Authority Act*. This regulation will not be changed as a consequence of the boundary extension. As you know, the government is committed to reviewing local government revenue from provincial crown corporations. This review is underway but it is too early to tell what the broader implications of this initiative would be for the Regional District or the City.
2. The Supplementary Letters Patent for implementing the boundary extension will ensure that the Regional District will continue to have access to the tax base within the boundary extension area for the purpose of recovering the costs of existing services. This will necessarily be within the constraints of applicable legislation.

.../2

Mr. Cunningham and Mayor Elliott
Page 2

3. The Supplementary Letters Patent for implementing the boundary extension will ensure that the Regional District will continue to have access to the tax base within the boundary extension area for the purpose of recovery of the costs of future services.
4. The Regional District wants assurances that its entitlement to Columbia Basin Trust allocations will not be impacted by the boundary extension. It is not anticipated that the boundary extension will, in itself, impact these allocations. Regardless, this is a matter of the Columbia Basin Trust policy and is not something that can be dealt with in the Supplementary Letters Patent for the municipal boundary extension.
5. The Regional District requests that the City be guaranteed that its entitlement to unconditional grants would not be adversely impacted by the increase in assessment resulting from the municipal boundary extension. I assume the particular concern will be the Small Community Protection Grant. It would not be possible to provide the kind of protection the City is asking for in the Supplementary Letters Patent because this program is formula-driven, with the objective of fair and equitable treatment for all municipalities in the Province.

We have done a preliminary review of the possible consequences for the City. The Ministry's Service Plan and the provincial budget provide for the maintenance of the Small Community Protection Program through the year 2004/05. I do not anticipate that the increase in assessment will have a major impact on the City's grant. We estimate that the increased assessment could mean a loss of approximately 3 percent in the grant, which is relatively small in comparison to the revenue increase that would accrue to the City.

In conclusion, I trust that I have provided the assurances you require in order to advance this proposal. Ministry staff will develop Supplementary Letters Patent to implement this proposal and share a draft of those with your staff. I understand that the City is undertaking the statutory advertising and I will be in the position of presenting Supplementary Letters Patent to Cabinet for its consideration by the end of April.

Sincerely,



George Abbott
Minister

pc: Blair Suffredine, MLA, Nelson-Creston
Derek Trimmer, Director, Local Government Structure Br