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ORDER NUMBER
G-124-18

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Nelson Hydro
2018 Rate Application

BEFORE:
A. K. Fung, QC, Panel Chair/Commissioner

on July 11, 2018

ORDER

WHEREAS:

A. On December 8, 2017, Nelson Hydro filed an application with the British Columbia Utilities Commission (BCUC) for approval of a general rate increase of 2.25 percent, effective April 1, 2018 (Application);

B. Nelson Hydro is owned and operated by the City of Nelson and is exempt from regulation under the *Utilities Commission Act* to the extent it is serving customers within its municipal boundaries. Accordingly, while the requested rate increase will be applied uniformly to all ratepayers receiving service both inside and outside the City of Nelson's municipal boundaries, the BCUC's review of the Application pertains solely to Nelson Hydro's non-municipal, or rural, ratepayers;

C. By Order G-13-18 dated January 17, 2018, the BCUC approved the applied for rate increase of 2.25 percent on an interim and refundable basis, effective April 1, 2018. The BCUC also established an initial regulatory timetable, which included intervener and interested party registration and one round of BCUC and intervener information requests (IRs);

D. By Order G-71-18 dated April 6, 2018, the BCUC established the remainder of the regulatory timetable, which included a second round of IRs, a deadline to file letters of comment and a deadline to file written final and reply arguments; and

E. The BCUC has reviewed the evidence, letters of comment and arguments in the proceeding and makes the following determinations.

NOW THEREFORE pursuant to sections 59-61 of the *Utilities Commission Act*, the BCUC orders as follows:

1. The 2018 general rate increase is approved on a permanent basis, subject to the reduction of $54,000 to the dividend payment, as outlined in the reasons for decision attached as Appendix A to this order.
2. Nelson Hydro is directed to refund the difference between the 2018 interim and permanent rates to non-municipal ratepayers, with interest at the average prime rate of Nelson Hydro's principal bank for its most recent year.
3. Nelson Hydro is directed to file as a compliance filing the calculations for the adjustment to the 2018 permanent rates and to file revised tariff pages reflecting the approved 2018 permanent rates within 30 days of the date of this order.
4. Nelson Hydro is directed to file the Cost of Service Allocation study and to fully address all issues identified by the BCUC in the reasons for decision attached to Order G-119-17 as part of the 2019 rate application.

DATED at the City of Vancouver, in the Province of British Columbia, this 11th day of July, 2018.

BY ORDER

Original signed by

A. K. Fung, QC
Commissioner

Attachment

Nelson Hydro

2018 Rate Application

Reasons for Decision

July 11, 2018

Before:
A. K. Fung, QC, Panel Chair/Commissioner

Table of Contents

1.0 Introduction

1.1 Background and jurisdiction

On December 8, 2017, Nelson Hydro filed a rate application with the British Columbia Utilities Commission (BCUC) for approval of Electrical Utility Amendment Bylaw No. 3387, 2017 as it applies to its non-municipal, or rural, customers (Application). This bylaw proposes to amend Nelson Hydro's electric rate schedules to implement a general rate increase of 2.25 percent for all customers effective April 1, 2018.

The BCUC reviews applications for changes to rates and rate schedules in accordance with sections 58 to 61 of the *Utilities Commission Act* (UCA). However, Nelson Hydro is in part exempt from regulation under the UCA as it is owned and operated by the City of Nelson (City) and therefore any services provided within the City's boundaries do not fall within the UCA's definition of a public utility. Therefore, the BCUC's review of the Application pertains solely to Nelson Hydro's non-municipal, or rural, ratepayers.

1.2 Review of the Application and regulatory process

By Order G-13-18 dated January 17, 2018, the BCUC established a preliminary regulatory timetable for review of the Application which included intervener and interested party registration and one round of BCUC and intervener information requests (IRs). Order G-13-18 also approved the applied for 2.25 percent rate increase on an interim and refundable basis pending the outcome of the proceeding. The interim rate increase was approved effective April 1, 2018.

By Order G-71-18 dated April 6, 2018, the BCUC established a regulatory timetable for the remainder of the proceeding. The timetable provided for a second round of IRs, a deadline for letters of comment, and set dates for written final and reply arguments.

One individual initially registered as an intervener (and was the sole intervener registered in the proceeding) but later switched to become an interested party. Two other individuals participated as interested parties. In addition, the BCUC received several letters of comment regarding, among other things, the opposition to the proposed rate increase and the expenditures related to the Community Solar Garden project.

1.3 Matters arising from the previous rate application

In the reasons for decision attached to Order G-119-17 regarding Nelson Hydro's 2017 rate application (2017 Decision), the BCUC identified five issues which it requested Nelson Hydro to address in a "detailed and well-reasoned manner" in its next rate application. These issues were related to the following:

(i) the calculation of the City's "allowed return" on utility assets, including the dividend payment;

(ii) the appropriateness and valuation of the Water License Reserve payment;

(iii) the amount transferred annually to the Capital Reserve Fund;

(iv) Nelson Hydro's method for forecasting power purchase expenses; and

(v) a detailed explanation for the "DES – operating expense" and "DES – revenue" line items, including how these items relate to the Community Solar Garden project and other District Energy projects.[1]

At the time the 2017 Decision was issued, Nelson Hydro was in the process of completing a utility-focused Cost of Service Allocation (COSA) study, which involved two major activities:

- Converting Nelson Hydro's system of accounts and the data recorded in municipal accounting formats to a reporting format more consistent with regulatory standards, including such items as amortization, capital reserves, water license transfers, return on equity (ROE) and shareholder payments.
- Functionalizing, classifying and allocating costs to the various customer classes, distinguishing between the municipal and non-municipal customers, as well as Residential and General Service customers.[2]

The COSA study was expected to address, in whole or in part, many of the issues identified by the BCUC in the 2017 Decision. However, Nelson Hydro advised in the Application that it has not been able to complete the COSA study[3] and further clarified in response to BCUC IRs that it expects to have the documents complete by the end of June 2018.[4]

While the delay in the completion of the COSA study prevents Nelson Hydro and therefore the Panel from addressing certain issues related to the allocation of costs amongst customers inside and outside the municipal boundaries and the allocation of costs amongst customer classes, Nelson Hydro has nonetheless provided evidence to support the proposed 2018 general rate increase and to address the issues raised by the BCUC in the 2017 Decision. Accordingly, the Panel provides determinations and discussion on the Application in the following sections of these reasons for decision.

2.0 Key issues

A number of issues were explored in depth in this proceeding, including: (i) the budgeted increase to the dividend payment; (ii) the treatment of the benefit from the Water Rights Agreement (WRA); (iii) the budgeted increase to the transfers to capital reserve and the balance contained in the capital reserve; and (iv) Nelson Hydro's approach to forecasting operating expenses and the reasonableness of specific expense forecasts for 2018. Additionally, concerns were raised through letters of comment regarding the necessity of the Community Solar Garden and how the associated expenditures are being recorded.

2.1 Dividend payment

For 2018, Nelson Hydro budgets an increase in dividend payments of $54,000 to the City, increasing the dividend from the 2017 approved amount of $2,700,000 to the proposed 2018 budget amount of $2,754,000.[5] Nelson Hydro explains that this represents an inflationary increase of two percent and that it is appropriate for the City to continue to receive value for operating and investing in the utility.[6]

[1] Appendix A to Order G-119-17, pp. 21–22.
[2] Ibid., p. 21.
[3] Exhibit B-1, p. 4.
[4] Exhibit B-3, BCUC IR 1.1.1.
[5] Exhibit B-1, p. 8.
[6] Exhibit B-3, BCUC IR 14.1, 14.2.

When asked why it proposes a two percent inflationary increase to the dividend payment as opposed to the three percent inflationary increase proposed for the majority of its 2018 operating expenses, Nelson Hydro responded as follows:

> 2% is comparable but not identical to the 2.25% Apr 01 rate increase. It was felt that a 3% increase would be doable but not necessary. Using a lower value helps to reduce rate pressure. A 3% dividend would have resulted in a general rate change of about 2.5% instead of 2.25%.[7]

Nelson Hydro further stated that an inflationary increase to the dividend payment is appropriate because it "maintains the value the City of Nelson receives from its utility" and that if the dividend did not increase then the "value would erode over the course of time."[8]

The dividend payment was not increased in 2017 (i.e. it remained the same as the 2016 dividend amount of $2,700,000), and in 2016 the dividend was increased by $100,000, which equated to an increase of 3.8 percent over 2015. Nelson Hydro explained that the dividend amount was maintained from 2016 to 2017 because "management felt that the dividend was sufficient for the city to continue to receive value and the dividend still represented about 15% of revenues." However, Nelson Hydro noted that 15 percent of revenues is not a formal target but is a level that "seems a reasonable benchmark given that the city can enjoy that revenue while residential rate for ratepayers are similar to (BC Hydro) or lower (FortisBC) than other utilities."[9]

Panel determination

The Panel notes that the issue of the City's "allowed return" was raised by the BCUC in the 2017 Decision and that Nelson Hydro indicated then that the calculation of ROE and shareholder payments would be addressed in the COSA study. In the absence of the COSA study, the Panel must assess the evidence provided by Nelson Hydro in the Application and in IR responses to support the reasonableness of the proposed two percent inflationary increase to the dividend payment. Based on Nelson Hydro's responses to IRs, it does not appear that a consistent approach is being applied to the calculation of the dividend payment on an annual basis, as evidenced by the 3.8 percent increase in 2016, the zero increase in 2017 and the proposed two percent increase for 2018. The Panel also points to Nelson Hydro's explanation for selecting a two percent inflationary increase instead of a three percent increase, stating that it felt that a three percent increase would be "doable but not necessary." Further, while Nelson Hydro refers to targeting 15 percent of revenues as a reasonable benchmark for determining the appropriate annual dividend amount, it also states that this is not a formal target, and it does not explain if the proposed dividend for 2018 is consistent with this target. The Panel further notes that the 2018 forecast revenues ($17,891,730) are similar to those budgeted in 2017 ($17,832,050), and even if one were to accept the 15 percent of revenues as the appropriate benchmark, the resulting dividend payment for 2018 would be slightly less (not more) than $2,700,000.[10]

For the above reasons, the Panel finds that the proposed increase of $54,000 to the 2018 dividend payment is not justified and therefore rejects the increase. The Panel approves a dividend amount of $2,700,000 for 2018, consistent with the amount approved in the 2017 Decision. The Panel notes that this determination is limited to the non-municipal ratepayers, as the Panel does not have the jurisdiction to make determinations regarding the rates charged to municipal ratepayers. The Panel also notes that this determination does not preclude

[7] Exhibit B-4, BCUC IR 28.1.
[8] Exhibit B-4, BCUC IR 28.2.
[9] Exhibit B-4, BCUC IR 28.3.
[10] Exhibit B-3, Attachment to BCUC IR 2.2.

Nelson Hydro from seeking changes to dividend payments in future applications as may be warranted based on the COSA study results.

2.2 Water license reserve payment

The water license reserve payment is a transfer payment from Nelson Hydro to the City. The payment represents compensation for 265 cubic feet per second (cfs) of water obtained by the City through the Water Rights Agreement (WRA) between the City and British Columbia Hydro and Power Authority (BC Hydro). The 265 cfs of water produces an estimated 11,642 Megawatt-hours (MWh) of energy annually and 1,402 kilowatts (kW) of capacity. This energy and capacity is valued at the current rate of energy and capacity purchases from FortisBC Inc. (FBC). Nelson Hydro states that valuing the WRA power at the FBC rate is the "practical market alternative" to sourcing the power.[11] The forecast 2018 water license reserve payment is $658,266.[12]

Through responses to BCUC IRs, Nelson Hydro clarified the relationship between the City, the WRA, and Nelson Hydro in the following manner:

> Nelson Hydro is an entity that owns and operates the hydro generating station and transmission and distribution works. Nelson Hydro holds a water license from the BC Government for 1428 cfs to operate the power plant.
>
> The City of Nelson, in its role as municipal government, had its own set of disputes and issues, separate from Nelson Hydro, with BC Hydro and the BC Government dating back to the 1950s…In order to settle this series of claims, the BC Government and BC Hydro reached a settlement with the City. Rather than providing cash compensation, the BC Government and BC Hydro provided compensation in the form of water flows. Note that this compensation was not provided to compensate Nelson Hydro's ratepayers – it was provided to compensate the City for the adverse effects it suffered.[13] [emphasis in original]

Nelson Hydro further stated the following:

> In the context of the present rate review, the issue relates to the payment that Nelson Hydro makes to the City for the use of the City's 265 cfs of compensation flow. In Nelson Hydro's account, that 265 cfs of flow is provided to Nelson Hydro so that it can use this water to generate power for ratepayer consumption. As financial recognition of the value of the 265 cfs, Nelson Hydro provides the City with payment equal to what that same power would have cost had it been purchased from FortisBC.[14]

Panel discussion

The Panel finds the water license reserve payment, which is based on the rate charged by FBC for the purchase of power by Nelson Hydro, to be reasonable. Nelson Hydro has clearly distinguished the relationship between, on the one hand, the 265 cfs of water the City obtained through the WRA between the City and BC Hydro from, on the other hand, Nelson Hydro's water license from the BC Government for 1,428 cfs to operate the power plant. The Panel accepts that the 265 cfs of water represents compensation from the BC Government and BC Hydro to the City in the form of water flows as opposed to cash compensation, and that this compensation is

[11] Exhibit B-1, p. 4.
[12] Exhibit B-3, Attachment to BCUC IR 2.2.
[13] Exhibit B-4, BCUC IR 29.1-29.4.
[14] Exhibit B-4, BCUC IR 29.1-29.4.

received by the City through the generation of power from Nelson Hydro. The Panel also accepts that valuing the power produced from the 265 cfs of water flows at FBC's energy and capacity rate is a reasonable proxy, as it represents the cost that Nelson Hydro would otherwise have paid to FBC for this power had it been purchased from FBC instead.

The Panel recommends that Nelson Hydro include the information contained in the responses to BCUC IRs 29.1 through 29.4 in future rate applications to clarify the nature of its water license reserve payment and to avoid future misunderstanding.

2.3 Transfers to capital reserve fund

Nelson Hydro budgets an amount for transfers to the capital reserve fund each year for the purpose of funding current and future capital expenditures. Additionally, net annual operating surpluses or deficits are added to/deducted from the capital reserve fund.

The 2018 budgeted transfers to the capital reserve fund have increased by eight percent compared to the 2017 budgeted transfers ($2,486,307 for 2018 compared to $2,293,194 for 2017).[15] Nelson Hydro states that the reason for the increase is that it is forecasting sustaining capital expenditures of $2,750,000 to $3,000,000 per year, which is an increase from its previous business plan estimates of $2,500,000 per year.

The actual transfers to capital reserve in 2017 are $3,613,932 compared to the budgeted amount of $2,293,194.[16] The actual transfers to capital reserve also exceeded budgeted amounts in 2014 and 2016.[17] Nelson Hydro explained that it has had "several years where the transfer into the capital reserve was above budget. This has been largely due to revenues being higher than budget."[18]

Nelson Hydro submitted that if the actual transfers continue to be above budgeted amounts, it would consider reducing the budget amounts in future years, particularly once the capital reserve balance has been re-built.[19] The 2017 closing balance in the capital reserve is estimated to be $4,825,509.[20]

The increased transfers to capital reserve for 2018 represent the majority of the proposed rate increase for 2018, as Nelson Hydro states that if the transfers to capital reserve were reduced to an amount similar to the 2017 budgeted transfers, the rate increase for 2018 would be reduced from 2.25 percent to 0.68 percent.[21]

Nelson Hydro explained that there are no formal thresholds for minimum or maximum levels for the capital reserve. It "recognizes that establishing reference levels is something that would be helpful" but it has "not been able to consider the matter due to our resources fully utilized on higher priority matters." Nelson Hydro further stated the following:

> Intuitively we think the level should be at least $5 million and not higher than $10 million. The reason is that we can foresee a scenario where an unexpected capital expenditure of about $2-3 million is possible e.g. emergency generator rewind or substation power transformer

[15] Exhibit B-1, p. 2; Exhibit B-2, Attachment to BCUC IR 2.2.
[16] Exhibit B-4, BCUC IR 30.1.
[17] Exhibit B-3, BCUC IR 16.3.
[18] Exhibit B-3, BCUC IR 16.5.
[19] Exhibit B-3, BCUC IR 16.5.
[20] Exhibit B-3, Attachment to BCUC IR 16.7.
[21] Exhibit B-3, BCUC IR 16.6.

> replacement could occur. The Capital reserve should be well greater than this foreseeable contingency.[22]

Nelson Hydro provided the following "rough" calculations to outline possible minimum capital reserve balances:[23]

	Maximum Contingency	Minimum Contingency
Reserve Min Balance	+ $1,000,000	+ $1,000,000
Min Annual Contribution	- $1,419,445	- $1,419,445
Max annual Draw	+$ 4,196,305	+$ 4,196,305
Contingency	+$ 4,000,000	+$ 2,000,000
Minimum Balance	$7,776,860	$5,776,860

Nelson Hydro submitted that the above calculations indicate the capital reserve minimum balance should be in the range of $5.8 million to $7.8 million, which gives it comfort that the targeted range of $5 million to $10 million is appropriate "until such time as a more sophisticated analysis is completed."[24]

In its final argument, Nelson Hydro made the following submission in respect of the intent behind its capital reserve fund:

> The utility has had a goal to build a healthy capital reserve (IR 16.1-16.11, IR 30.0-30.10). The reserve is now at the low end of what is considered the healthy range ($5 – 10 million). Having this reserve makes the utility healthier by providing the flexibility to respond to unanticipated circumstances, such as un-expected capital works (emergency upgrades) or unexpected shortfalls in come [sic]. This contributes to being able to make the rates stable.[25]

Panel discussion

The BCUC previously found in the 2017 Decision that Nelson Hydro's practice of financing its capital expenditures primarily through the use and management of the capital reserve fund is reasonable in light of the restrictions on Nelson Hydro's ability to obtain debt financing and the fact that it follows municipal accounting standards which allow for the use of such funds.[26]

The Panel notes that Nelson Hydro has provided some rationale to support its statement that the capital reserve fund balance should be between $5 million and $10 million. The Panel accepts that the imposition of an arbitrary minimum or maximum threshold on the capital reserve balance would be undesirable as it would reduce the ability of Nelson Hydro to respond to unexpected expenditures or fluctuations in revenues. However, in the interest of providing ratepayers with greater certainty and transparency, the Panel encourages Nelson Hydro to prioritize the establishment of clear guidelines around the appropriate minimum and maximum capital reserve balance to better inform ratepayers, and requests that Nelson Hydro provide an update on the development of these guidelines in its 2019 rate application.

[22] Exhibit B-3, BCUC IR 16.8.
[23] Exhibit B-4, BCUC IR 30.4.
[24] Ibid.
[25] Nelson Hydro Final Argument, p. 4.
[26] 2017 Decision, p. 15.

2.4 Forecasting of operating expenses

Nelson Hydro's actual operating expenses were less than the budgeted amounts in 2016 and 2017. The 2018 budget for operating expenses of $4,741,184 is 2.3 percent higher than the 2017 budget and 4.0 percent higher than 2017 actual amounts.[27]

Both Nelson Hydro's approach to budgeting as a whole as well as the budgets for each expense item were examined in depth in the proceeding. In response to BCUC IRs, Nelson Hydro clarified that it does not only utilize inflationary increases when budgeting the upcoming year's operating expenses. Nelson Hydro submitted that "Department Managers review every line item (1,279 line items in the 2018 Operating budget) and judge whether to let an inflationary increase prevail or to override with better judgment value."[28] Nelson Hydro cited as an example insurance expense, which varies up and down from year to year, thus Nelson Hydro uses the best forecast available. Another example is substation maintenance costs, which Nelson Hydro stated have been dropping and therefore the default annual inflationary increases are over-written by the manager to reflect the fact that costs are actually decreasing instead of increasing.[29]

With regard to capital expenditures, Nelson Hydro stated that it utilizes zero-based budgeting. Nelson Hydro submitted that zero-based budgeting is the best approach for capital items as they are usually one-off projects with no ongoing costs. The exception to this approach is for customer-driven capital expenditures (i.e. customer connections) which are budgeted based on management's best forward-looking estimate with reference to historical spending patterns.[30]

Nelson Hydro budgets $12,500 for donations as part of the 2018 Electrical Administration operating expenses. The actual 2017 donations totaled $17,972. Nelson Hydro explained that donations are not pre-determined and depend on requests received and approved. Nelson Hydro further stated that donations are made to non-profit groups, charities and schools, and these donations benefit all children and families regardless of whether they live in the urban or rural areas. Donations are based on requests from within the service area only and focus on groups that work with education for children in learning and sport as well as education, medical and social needs for all families.[31]

Concerns were raised in several letters of comment regarding Nelson Hydro's labour costs and the increased use of electrical contractors.[32] Nelson Hydro provided a breakdown of the number of direct employees, the associated salaries, and indicated whether each employee was classified as management/exempt or union. The information shows that the number of managers, linemen and operations personnel has been relatively consistent since 2016.[33] Nelson Hydro stated that for 2018 exempt employees will receive a salary increase of 1.85 percent and union employees will receive a salary increase of 2.0 percent in accordance with the collective bargaining agreement for CUPE employees.[34]

[27] Exhibit B-3, Attachment to BCUC IR 2.2.
[28] Exhibit B-4, BCUC IR 19.4-19.6.
[29] Ibid.
[30] Ibid.
[31] Exhibit B-4, BCUC IR 22.2, 22.3, 22.5.
[32] Exhibit E-1-1, E-5, E-6, E-7.
[33] Exhibit B-4, Appendix 1, 2.
[34] Exhibit B-4, BCUC IR 25.3.1.

With regard to employees who work partially for Nelson Hydro, it allocates the employees' time based on an estimate of actual time spent in a given year on Hydro-related activities. Nelson Hydro advised that the allocation factors have been consistent since 2010.[35]

Nelson Hydro stated that there are only a few services contracted on an annual basis such as for substation maintenance but these are "low dollar value" compared to construction contracts related to specific projects. Approximately 30 years ago it had a much larger line department which performed a large proportion of the capital construction work; however, this work is now performed primarily by contractors. Nelson Hydro submitted that in the last 10 years there has been no outsourcing of staff positions to contracted services.[36]

Panel discussion

The Panel accepts Nelson Hydro's approach to forecasting operating expenses as it is clear, based on the evidence, that Nelson Hydro applies a rigorous and methodological approach to budgeting which incorporates a combination of inflationary adjustments, management judgment and zero-based budgeting, where appropriate. With regard to labour costs, the Panel considers Nelson Hydro's approach to allocation of employees' time reasonable as it is based on the actual amount of time spent on Hydro-related activities and the allocations are consistently applied year over year. Further, the salary increases for 2018 are reasonable and consistent with inflationary forecasts. The Panel sees no indication of an increased reliance on contractors based on the evidence provided by Nelson Hydro.

Based on the above, the Panel finds Nelson Hydro's forecast for 2018 operating expenses to be reasonable.

The Panel notes, however, that Nelson Hydro includes donations as part of its operating expenses and recovers these donations fully from ratepayers. This is a departure from the BCUC's accepted practice for donation expenses, which is to allow regulated utilities to recover only 50 percent of donation expenses from ratepayers.[37] However, given the relatively immaterial amount of the budgeted donation expense (i.e. $12,500 compared to the overall 2018 operating expense budget of $4,741,184) and the fact that the 2018 forecast is less than the actual 2017 donation expense ($17,972), the Panel accepts Nelson Hydro's current approach of recovering 100 percent of donation expenses from ratepayers.[38] The Panel cautions Nelson Hydro that should budgeted or actual donation expenses increase in the future, Nelson Hydro may be required to adhere to the 50 percent recovery approach required of other regulated utilities in respect of this category of operating expenses.

2.5 District Energy System projects and the Community Solar Garden

As stated previously, Nelson Hydro was requested by the BCUC in the 2017 Decision to provide details regarding the "DES – operating expense" and "DES – revenue" line items and to explain how these items relate, if at all, to the District Energy projects and the Community Solar Garden project.[39]

Nelson Hydro explained that there are two separate District Energy System (DES) projects and that both are distinguishable from the Community Solar Garden project. The first of the two DES projects is a standalone project which was put into service in 2011 to provide heat to a college dormitory. This project incurs approximately $10,000 per year in operating costs which are billed at a mark-up to the college for a small

[35] Exhibit B-4, BCUC IR 21.5.
[36] Exhibit B-4, BCUC IR 22.10.
[37] FortisBC Inc. 2012-2013 Revenue Requirements and Review of 2012 Integrated System Plan Decision dated August 15, 2012, p. 69; FortisBC Energy Utilities 2012-2013 Revenue Requirements and Rates Decision dated April 12, 2012, p. 73.
[38] Exhibit B-4, BCUC IR 22.2, 22.3.
[39] 2017 Decision, p. 22.

amount of positive revenue to Nelson Hydro. The second of the two DES projects is a new business opportunity that would be completely built within and operated as a City asset; however, it has not yet been determined if the project will proceed.[40]

The Community Solar Garden project was completed in 2017 and has ratepayers from both the municipal and non-municipal part of the utility who have invested for a 25-year term. Nelson Hydro budgets $2,000 per year for annual maintenance of the Community Solar Garden which is recovered from all ratepayers.[41] Nelson Hydro further confirmed in response to BCUC IR 24.4 that there are no other expenses recorded in the budget for the Community Solar Garden beyond the $2,000 for annual maintenance work.[42] The actual 2017 maintenance expenses for the Community Solar Garden were $1,486 related to signage and repairs for the site after an attempted copper theft.[43]

Panel discussion

The Panel finds Nelson Hydro's budget of $2,000 for the Community Solar Garden to be reasonable. With the exception of the $2,000 annual maintenance costs, the project costs are attributable to and recovered from those ratepayers who have chosen to invest in the solar panels. Given the immateriality of the $2,000 annual maintenance expenses associated with the Community Solar Garden, it is not unreasonable for Nelson Hydro to recover this minimal amount for the upkeep of the site from all ratepayers. The Panel accepts that Nelson Hydro is not recording any additional costs beyond the $2,000 maintenance expenses as part of its overall annual operating expense budget.

With regard to the other DES projects, the Panel notes that only one of the projects is currently in service and that it provides a minor benefit to all ratepayers since the services are charged at a mark-up to the college, resulting in a small amount of positive revenue to Nelson Hydro net of operating expenses. The Panel makes no comment on the other DES project given that it is not built and that Nelson Hydro confirms that were the project to proceed, the costs and benefits would not be attributable to non-municipal ratepayers.

3.0 Panel determination on proposed 2018 rate increase

Based on the evidence filed in the proceeding and for the reasons provided above, the Panel finds the 2018 forecasts for expenses and revenues reasonable, with the exception of the proposed inflationary increase to the dividend payment. **Accordingly, the Panel approves the 2018 rate increase for the non-municipal ratepayers, subject to the $54,000 reduction to the dividend payment, on a permanent basis. Nelson Hydro is directed to refund to non-municipal customers the difference between the 2018 interim and permanent rates with interest at the average prime rate of Nelson Hydro's principal bank for its most recent year. Nelson Hydro is also directed to file as a compliance filing the calculations for the adjustment to permanent rates and the revised tariff pages reflecting permanent rates within 30 days of the date of these reasons for decision.**

For greater certainty, the Panel reiterates that its determinations in these reasons for decision pertain only to Nelson Hydro's non-municipal ratepayers and do not apply to Nelson Hydro's municipal ratepayers as the BCUC has no regulatory jurisdiction over the latter.

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[40] Exhibit B-1, pp. 5–6.
[41] Exhibit B-1, p. 6.
[42] Exhibit B-4, BCUC IR 24.4.
[43] Exhibit B-3, BCUC IR 13.1.

4.0 Future rate applications, directions and recommendations going forward

Nelson Hydro stated in response to BCUC IRs that it expects to have the COSA study complete by the end of June 2018.[44] Since the COSA study's delayed completion and the lack of the study's results continue to impact Nelson Hydro's ability to provide certain information related to issues such as ROE, utility return, and other regulatory accounting matters, **the Panel directs Nelson Hydro to file the COSA study and to fully address all issues identified by the BCUC in the 2017 Decision as part of the 2019 rate application.**

The Panel notes that, in accordance with the BCUC's recommendation in the 2017 Decision, Nelson Hydro conducted an in-person stakeholder consultation/open house session subsequent to the Application being filed.[45] The Panel recommends that Nelson Hydro continue this practice for future rate applications. Additionally, the Panel recommends that Nelson Hydro either hold a separate consultation session, or provide a dedicated portion of the consultation session for the 2019 rate application, to discuss in detail the COSA study and its results, including any ensuing proposals for rate or rate design changes.

[44] Exhibit B-3, BCUC IR 1.1.1.
[45] Exhibit B-3, BCUC IR 18.1.