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### ORDER NUMBER G-170-24

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

and

Nelson Hydro 2024 Revenue Requirements

### **BEFORE:**

E. B. Lockhart, Panel Chair M. Jaccard, Commissioner W. E. Royle, Commissioner

on June 21, 2024

### ORDER

### WHEREAS:

- A. On October 31, 2023, Nelson Hydro filed an application with the British Columbia Utilities Commission (BCUC) seeking approval of a general annual rate increase of 6.2 percent for the Rural service area, among other matters, pursuant to sections 59 to 61 of the Utilities Commission Act (UCA) (Application);
- B. Nelson Hydro is owned and operated by the City of Nelson and is excluded from regulation under the UCA to the extent it is serving customers within its municipal boundaries. Accordingly, the BCUC's review of the Application pertains solely to Nelson Hydro's non-municipal, or Rural, ratepayers;
- C. By Order G-321-23 dated November 24, 2023, the BCUC approved Nelson Hydro's requested rate increase of 6.2 percent that applies to all Rural customer classes on an interim, refundable or recoverable basis, effective January 1, 2024;
- D. By Orders G-321-23 and G-66-24, the BCUC established a regulatory timetable for the review of the Application;
- E. On January 15, 2024, Nelson Hydro filed an evidentiary update (Evidentiary Update) pursuant to the BCUC Decision and Order G-330-23 dated December 5, 2023, regarding the Nelson Hydro 2023 Revenue Requirement Application. Nelson Hydro recalculated the 2024 rate increase to be 4.26 percent for the Rural service area and proposed to track any variance between the 2024 interim and permanent rates in a deferral account;
- F. On February 22, 2024, in response to a BCUC information request, Nelson Hydro noted that it omitted 2024 capital revenue for new services which results in a reduction in the Rural revenue requirement and indicated that a 4.21 percent rate increase is required;

- G. On March 28, 2024, Nelson Hydro confirmed that it is seeking approval of a 4.21 percent rate increase for Rural customers subject to its proposal for variance treatment as outlined in the Evidentiary Update; and
- H. The BCUC has reviewed the Application and the submissions received and makes the following determinations.

**NOW THEREFORE** pursuant to 59 to 61 and 89 of the UCA and for the reasons outlined in the decision accompanying this order, the BCUC orders as follows:

- 1. Nelson Hydro is approved to increase its Rural rates by 4.21 percent, effective January 1, 2024, subject to any adjustments to Nelson Hydro's allowed return from the Generic Cost of Capital Stage 2 proceeding.
- 2. Nelson Hydro's request to continue charging the 6.2 percent interim rate increase in 2024 is approved. Nelson Hydro is directed to record the variances between the revenue collected at the interim rate increase of 6.2 percent and the approved rate increase of 4.21 percent in the Revenue Variance Deferral Account.
- 3. Nelson Hydro is directed to file tariff pages reflecting the 2024 rate increase for Rural customers by July 22, 2024, for endorsement by the BCUC.
- 4. Nelson Hydro is approved to expand the scope of the 2023 Revenue Variance Deferral Account and rename it to the Revenue Variance Deferral Account as specified in Section 2.3 of the decision.
- 5. Nelson Hydro is approved to establish a Flow-Through Variance Deferral Account to capture variances between uncontrollable actual and forecast revenues and expenses, except for amortization expenses, as specified in Section 2.4 of the decision.
- 6. Nelson Hydro is approved to establish or modify the Debt Issuance Costs Deferral Account, Participant Cost Assistance/Cost Award Deferral Account, Cybersecurity Audit Deferral Account and the Provincial Cost of Living Credit Deferral Account in the manner specified in Section 3.0 of the decision.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 21<sup>st</sup> day of June 2024.

BY ORDER

Original signed by:

E. B. Lockhart Commissioner

# Nelson Hydro 2024 Revenue Requirements

### DECISION

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### **Executive Summary**

On October 31, 2023, Nelson Hydro filed a revenue requirement application (RRA) with the British Columbia Utilities Commission (BCUC) for approval of a general annual rate increase for Nelson Hydro's non-municipal (Rural) service area, pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA) (Application). Initially, Nelson Hydro sought a rate increase of 6.20 percent, for which the BCUC granted interim approval to take effect on January 1, 2024, on a refundable or recoverable basis pending further review of the Application. During the proceeding, Nelson Hydro amended its request to 4.26 percent and further revised it to 4.21 percent.

Nelson Hydro is, in part, excluded from regulation under the UCA because it is owned and operated by the City of Nelson. Any services provided within the City of Nelson's boundaries (Urban) do not fall within the UCA's definition of a public utility. The BCUC's review of Nelson Hydro's revenue requirements pertains solely to its Rural ratepayers.

Nelson Hydro prepared the Application in accordance with a cost-of-service methodology that the BCUC approved in 2022.<sup>1</sup> Nelson Hydro states that the rate increase is largely driven by two key factors: an increase in power purchase costs and an increase in capital projects. The Panel accepts Nelson Hydro's load forecast methodology for the purpose of setting rates for 2024. Further, we find that Nelson Hydro has adequately supported the two adjustments it made to its load forecast methodology, in relation to Nelson Hydro's energy growth rate and demand forecast.

The Panel considers that Nelson Hydro's 2024 capital additions in the amount of \$908,625 for Rural and \$6,639,981 for common to both Rural and Urban (Common) are reasonable. The largest capital addition, \$5.95 million, is for the Mill St. Substation upgrade project, which Nelson Hydro expects to complete in 2024.

The Panel approves Nelson Hydro to increase its Rural rates by 4.21 percent, effective January 1, 2024, subject to any adjustments to Nelson Hydro's allowed return from the Generic Cost of Capital (GCOC) Stage 2 proceeding. In addition, we direct Nelson Hydro to record variances between the revenue collected at the interim rate increase of 6.2 percent and the approved rate increase of 4.21 percent in the Revenue Variance Deferral Account.

The Panel acknowledges that the approved interim rate increase of 6.2 percent is higher than the rate increase of 4.21 percent approved in this decision, and that we could direct Nelson Hydro to immediately refund the difference to ratepayers. Rather than a bill adjustment, however, we find that recording the overcollection in a deferral account is appropriate because the administrative cost to Nelson Hydro of an immediate refund is not justified and because additional adjustments to Nelson Hydro's 2024 Rural rates may be necessary depending on the outcome of the GCOC Stage 2 proceeding.

As part of the Application, Nelson Hydro requests approval to establish or modify various deferral accounts, all of which the Panel approves subject to certain adjustments. Among these approvals is the establishment of a Flow-Through Variance Deferral Account for Nelson Hydro to capture variances between uncontrollable actual and forecast revenues and expenses.

Now that the BCUC has determined Nelson Hydro's cost of service allocation for Rural ratepayers and approved regulatory accounts for Nelson Hydro's uncontrollable costs, the Panel encourages Nelson Hydro to explore alternatives to annual rate applications, which could enhance regulatory efficiency and cost reduction.

<sup>&</sup>lt;sup>1</sup> Nelson Hydro Cost of Service Analysis and Rate Design, Decision and Order G-196-22 dated July 19, 2022.

### 1.0 Introduction

### 1.1 Approvals Sought, Background and Jurisdiction

On October 31, 2023, Nelson Hydro filed a revenue requirement application (RRA) with the British Columbia Utilities Commission (BCUC) for approval of a general annual rate increase for Nelson Hydro's non-municipal service area for 2024, pursuant to sections 59 to 61 of the *Utilities Commission Act* (UCA) (Application). Initially, Nelson Hydro sought an increase of 6.20 percent, however, during the proceeding, Nelson Hydro amended its request to 4.26 percent and further revised it to 4.21 percent. Nelson Hydro proposes that the general annual rate increase become effective on January 1, 2024 subject to adjustments resulting from the Generic Cost of Capital (GCOC) Stage 2 proceeding. Nelson Hydro also requests approval to create several new deferral accounts as well as modify some existing deferral accounts.<sup>2</sup>

Nelson Hydro is owned and operated by the City of Nelson and serves customers within its municipal boundaries (Urban), as well as rural customers outside the City of Nelson's boundaries (Rural). Municipalities providing utility services within their own boundaries are excluded from the definition of a public utility under the UCA, and therefore the BCUC's review of the Application pertains solely to Nelson Hydro's Rural service area. The BCUC reviews applications for changes to rates in accordance with sections 59 to 61 of the UCA.

### 1.2 Regulatory Process

On November 24, 2023, the BCUC established a regulatory timetable for the review of Nelson Hydro's 2024 RRA. The BCUC also approved a 6.20 percent general rate increase, effective January 1, 2024, on an interim, refundable or recoverable basis, pending the outcome of this proceeding.<sup>3</sup> The regulatory timetable included public notice, one round of BCUC information requests (IR), letters of comment, one round of Panel IRs, and Nelson Hydro's final argument.<sup>4</sup> The BCUC also received one letter of comment from a member of the public opposing the rate increase, stating that any rate increase should be aligned with inflation to alleviate pressure on consumers.<sup>5</sup>

### 1.3 Previous Applications

Prior to 2022, Nelson Hydro calculated its revenue requirements based on its forecast costs for the whole utility, resulting in the same rates for the Urban and Rural service areas. In 2020, however, Nelson Hydro filed a rate design application, supported by a cost-of-service analysis, in which it proposed a rate differential between Urban and Rural customers.<sup>6</sup> The cost-of-service analysis presented detailed information regarding Nelson Hydro's proposed cost allocations between service areas and the rate of return. The BCUC approved Nelson Hydro's cost-of-service analysis in July 2022, subject to certain amendments, and directed Nelson Hydro to use this modified cost-of-service analysis in its subsequent RRAs.<sup>7</sup>

<sup>&</sup>lt;sup>2</sup> Exhibit B-1, p. 2; Exhibit B-3, pp. 3–5.

<sup>&</sup>lt;sup>3</sup> Exhibit A-2.

<sup>&</sup>lt;sup>4</sup> Exhibit A-2.

<sup>&</sup>lt;sup>5</sup> Exhibit D-1.

<sup>&</sup>lt;sup>6</sup> Nelson Hydro Cost of Service Analysis and Rate Design proceeding, Exhibit B-1.

<sup>&</sup>lt;sup>7</sup> Nelson Hydro Cost of Service Analysis and Rate Design proceeding, Decision and Order G-196-22 dated July 19, 2022, pp. 60, 83.

Nelson Hydro sought a reconsideration of the approved cost-of-service analysis, specifically, the directives regarding how Nelson Hydro allocates costs of generation and power purchases and its deemed capital structure.<sup>8</sup> The BCUC denied the reconsideration application in November 2023.<sup>9</sup>

On December 5, 2023, the BCUC issued its decision regarding Nelson Hydro's 2023 RRA<sup>10</sup>, which had an impact on Nelson Hydro's methodology to calculate its 2024 revenue requirement.<sup>11</sup> Because Nelson Hydro had already submitted the Application, the BCUC's decision for the 2023 RRA resulted in Nelson Hydro submitting an evidentiary update, which is addressed in the next section.

### 1.4 Evidentiary Update and Amended Rates

On January 15, 2024, Nelson Hydro filed an evidentiary update to incorporate the BCUC's directives from the 2023 RRA. Nelson Hydro recalculated the 2024 rate increase to be 4.26 percent for the Rural service area, a decrease from the 6.20 percent requested in the original Application.<sup>12</sup> In response to information requests, however, Nelson Hydro stated that it had overlooked some capital revenue for new services, which resulted in a reduction of \$5,000 in the Rural revenue requirement and a corresponding decrease in the 2024 rate increase to 4.21 percent.<sup>13</sup>

Nelson Hydro proposes that the 6.20 percent rate increase, which the BCUC approved on an interim basis, should continue, even though the cost-of-service model indicates that the rate increase should be 4.21 percent. Further, Nelson Hydro proposes that any overcollection once the rate is made permanent should be recorded in the Revenue Variance Deferral Account. Nelson Hydro submits that this approach is cost effective and less confusing for customers for two reasons.<sup>14</sup> First, it expects the amount of the overcollection will not be material (the difference between the two rate increases is approximately \$183,000 in 2024). Second, it expects the outcome of the GCOC proceeding will partially offset the overcollection due to a higher approved return.

### 1.5 Decision Framework

This decision is structured as follows:

- Section 2.0 describes Nelson Hydro's 2024 revenue requirements and provides the overall determination on the 2024 rate and deferral accounts affecting the 2024 rate.
- Section 3.0 discusses Nelson Hydro's requests for deferral accounts affecting debt issuance costs, participant assistance/cost awards (PACA), cybersecurity audit costs and the provincial cost of living credit.
- Section 4.0 discusses future rate change applications.

<sup>&</sup>lt;sup>8</sup> Nelson Hydro Reconsideration and Variance of Order G-196-22, Exhibit B-1, p. 4.

<sup>&</sup>lt;sup>9</sup> Nelson Hydro Reconsideration and Variance of Order G-196-22, Decision and Order G-311-23 dated November 15, 2023.

<sup>&</sup>lt;sup>10</sup> Nelson Hydro 2023 RRA, Decision and Order G-330-23 dated December 5, 2023.

<sup>&</sup>lt;sup>11</sup> Exhibit B-3, p. 1.

<sup>&</sup>lt;sup>12</sup> Exhibit B-3, p. 3.

<sup>&</sup>lt;sup>13</sup> Exhibit B-5, Panel IR 1.1.

<sup>&</sup>lt;sup>14</sup> Nelson Hydro Final Argument, pp. 3–4.

### 2.0 2024 Revenue Requirements

In accordance with the cost-of-service analysis, Nelson Hydro calculates a 4.21 percent rate increase is required for Rural customers.<sup>15</sup> The 4.21 percent rate change results in an estimated average annual bill increase of \$64.87 for the average Rural residential customer in 2024, based on average annual use of 12,599 kilowatt hour (kWh) per customer.<sup>16</sup>

Nelson Hydro provides the Rural 2024 budget forecast, which shows a Rural revenue requirement of \$9.6 million that includes operating costs, amortization expenses and cost of capital (debt and equity). Nelson Hydro explains that existing rates would generate revenue of \$9.2 million at projected loads, yielding a shortfall of \$387,000. That shortfall requires a 4.21 percent Rural rate increase as shown in Table 1 below:

### Table 1: 2024 Revenue Requirement Calculation<sup>17</sup>

### Rural Revenue Requirement 2024 (\$000s)

	Deemed Capital Struct	ture
Operating Costs less: Other Revenue	es 7,012	
Amortization	745	
Existing Debt Interest Expense (8.8% of Rate Base)	85	@3.7%
Deemed Interest Expense (41.2% of Rate Base)	536	@4.94%
Return on Deemed Equity (50% of Rate Base)	1,217	@9.25%
rounding adjustments		
Revenue Required from Rates	9,594	
less: Revenues at Existing Rates	9,207	
Shortfall Rate Increase Required	387 4.21%	

### Panel Discussion

The Panel is satisfied that Nelson Hydro has prepared its Rural rate increase application based on the cost-ofservice analysis as directed by the BCUC.

As Table 1 above illustrates, the largest component of Nelson Hydro's 2024 revenue requirement is Operating Costs, comprising power purchases and expenses related to transmission, distribution and administration. The largest component of Operating Costs is for power purchases, which is addressed in Section 2.1 below. Overall, the Panel finds that Nelson Hydro's 2024 revenue requirement with respect to Operating Costs is reasonable.

As Table 1 above also illustrates, capital related matters form another large component of Nelson Hydro's 2024 revenue requirement, in particular, the aggregate of the return on rate base and amortization. These items are a

<sup>16</sup> Nelson Hydro confirms that the annual bill in 2023 for the average Rural residential customer (based on the approved 2023 rates and annual average use of 12,599 kWh per customer) was \$1,540.85 (Exhibit B-4, BCUC IR 1.1). BCUC Staff have escalated this amount at Nelson Hydro's requested rate increase of 4.21 percent for Rural customers to arrive at an estimated annual bill of \$1,605.72 in 2024 for an average Rural residential customer, resulting in an increase of \$64.87.

<sup>&</sup>lt;sup>15</sup> Exhibit B-5, Panel IR 1.1.

<sup>&</sup>lt;sup>17</sup> Exhibit B-4, Appendix 1-2.

function of Nelson Hydro's forecast capital expenditures and are addressed in Section 2.2 below. Overall, the Panel finds that Nelson Hydro's 2024 revenue requirement with respect to amortization, deemed interest, and return on rate base is reasonable. The BCUC determined Nelson Hydro's return on equity in the 2022 Cost of Service Analysis and Rate Design proceeding. A new proposal by Nelson Hydro is being reviewed in the GCOC Stage 2 proceeding.

Following our discussions regarding power purchases and forecast capital expenditures in Section 2.1 below, Sections 2.3 and 2.4 address two deferral accounts that affect the 2024 Rural rates. Section 2.5 provides the Panel's overall determination for the 2024 Rural rate change.

### 2.1 Load Forecast and Power Purchases

Nelson Hydro explains that nearly half of the proposed rate increase is due to an increase in the cost of power it purchases from its supplier, FortisBC Inc. (FortisBC).<sup>18</sup> The BCUC approved a 6.74 percent general rate increase for FortisBC, effective January 1, 2024.<sup>19</sup> Nelson Hydro's 2024 operating budget includes \$8,282,452 in power purchases from FortisBC, of which it assigns \$3,526,702 to the Rural service area.<sup>20</sup>

Nelson Hydro states that customer feedback received during budget and rate presentations encouraged it to look at all possible options to reduce the rate increase.<sup>21</sup> Nelson Hydro identified two areas for adjustment: the monthly energy growth factor and demand forecast calculation.<sup>22</sup>

Nelson Hydro explains that it calculates the energy forecast by taking the average consumption of the last four years of the same month and then multiplying that by a monthly energy growth factor.<sup>23</sup> During its review, however, Nelson Hydro noticed that the energy forecast was predicting lower than actual consumption, as illustrated in Table 2 below.<sup>24</sup> Nelson Hydro acknowledges that this under-forecast is in part because the averaging included 2020, the low consumption year of the pandemic. Accordingly, Nelson Hydro adjusted the monthly energy growth factor to better align the data with purchased power energy billing from the previous four years.<sup>25</sup>

<sup>&</sup>lt;sup>18</sup> Exhibit B-1, p. 42.

<sup>&</sup>lt;sup>19</sup> Exhibit B-1, p. 23; FortisBC Inc. 2024 Annual Review of Rates, Order G-340-23 dated December 12, 2023.

<sup>&</sup>lt;sup>20</sup> Exhibit B-4, Appendix 12, "Tables" Tab, Table 4.

<sup>&</sup>lt;sup>21</sup> Exhibit B-1, p. 21.

<sup>&</sup>lt;sup>22</sup> Exhibit B-1, p. 21.

<sup>&</sup>lt;sup>23</sup> Exhibit B-4, BCUC IR 5.3.

<sup>&</sup>lt;sup>24</sup> Exhibit B-1, p. 21.

<sup>&</sup>lt;sup>25</sup> Exhibit B-1, p. 21.

Year	Purchase Forecast (kWh)	Actual Purchase FBC (kWh)	Variance to Forecast
2016	78,837,751	75,911,054	-3.7%
2017	79,630,716	89,424,164	12.3%
2018	76,871,603	86,722,482	12.8%
2019	77,700,462	85,185,371	9.6%
2020	80,552,617	80,723,737	0.2%
2021	79,717,773	88,859,645	11.5%
2022	79,175,266	88,569,058	11.9%
2023	81,228,917	84,899,810	4.5%
	A	verage Variance (2016-2023)	7.4%

### Table 2: Forecast and Actual Energy Purchases (kWh)<sup>26</sup>

Nelson Hydro also adjusted the demand forecast calculation in its load forecast model, citing its belief that its demand calculation was too high.<sup>27</sup> It attributed this to an anomalous cold weather event in December 2022, which affected power purchase costs in 2023 and created a worst-case scenario of escalating peak demand. Nelson Hydro therefore changed the formula for predicting demand to use the average demand from the previous four years instead of the maximum, or peak, demand.<sup>28</sup> Table 3 below provides a comparison of forecast and actual purchased demand for years 2019 through 2023 as well as a comparison of forecast purchased demand using the old and new forecasting models for years 2024 through 2028.

### Table 3: Old and New Model Forecast Purchased Demand Compared to Actual Purchased Demand<sup>29</sup>

	1	1	
Year	MAX Forecast Purchased	AVG Forecast Purchased	Actual Purchased Demand
	Demand (kVA) -> Old Model	Demand (kVA) -> New	(kVA)
		Model	
2019	250,736	-	322,061
2020	254,167	-	277,311
2021	258,152	-	294,586
2022	256,064	-	305,010
2023	223,653	-	314,979
2024	267,379	234,567	-
2025	277,913	242,644	-
2026	279,303	237,893	-
2027	280,699	233,328	-
2028	282,103	235,758	-

Upon completion of the load forecast review, Nelson Hydro adjusted its monthly energy growth factor to 2.5 percent and its demand growth factor at 0.5 percent for 2024.<sup>30</sup> Nelson Hydro acknowledges that while it might incur some risk in making these changes, such risk would be mitigated if the requested Flow-Through Variance Deferral Account is approved.<sup>31</sup>

<sup>&</sup>lt;sup>26</sup> Exhibit B-4, BCUC IR 5.1.

<sup>&</sup>lt;sup>27</sup> Exhibit B-1, p. 21.

<sup>&</sup>lt;sup>28</sup> Exhibit B-4, BCUC IR 5.2.

<sup>&</sup>lt;sup>29</sup> Exhibit B-4, BCUC IR 5.2.

<sup>&</sup>lt;sup>30</sup> Exhibit B-4, BCUC IR 5.4.

<sup>&</sup>lt;sup>31</sup> Exhibit B-1, p. 21.

### Panel Determination

The Panel finds that Nelson Hydro's load forecast methodology is reasonable for the purpose of setting rates for 2024. We note that Nelson Hydro has made two adjustments to its load forecast methodology, both to how it sets the energy growth rate as well as how it calculates the demand forecast.

First, as Table 2 illustrates, actual energy purchased has regularly exceeded forecast energy purchased, and while this can in part be attributed in 2020 to the impact of the pandemic, that does not explain the discrepancy entirely. Thus, we are persuaded that Nelson Hydro's decision to increase the monthly energy growth factor was an appropriate adjustment to the formula when it realized that its energy forecast, which incorporates the four-year average of actual energy purchases, did not align with actual energy purchased.

Second, we accept, as Table 3 illustrates, that actual purchased demand between 2019 and 2023 did not escalate. Nelson Hydro's decision to adjust its methodology was reasonable to better align the forecast with actual data, in this case, by using the average, rather than the maximum, monthly peak demand. However, even with this adjustment, we note in Table 3 that the new model forecast purchased demand remains less than the old model forecast purchased demand. This does not support Nelson Hydro's assertion that its demand calculation was too high. As Table 3 shows, between 2019 and 2023, the forecast never exceeded the actual purchased demand, and one could conclude from Table 3 that the new model would only widen the gap between forecast and future actuals instead of closing it. The Panel considers that the Flow-Through Variance Deferral Account will mitigate such discrepancy for this test period.

However, as we discuss in Section 2.4 below, the Flow-Through Variance Deferral Account captures variances between approved and actual power purchases. In order for the BCUC to approve a power purchase forecast, the utility must establish that it has reasonably derived that forecast. Therefore, we encourage Nelson Hydro to address the underlying cause of this discrepancy.

Having found the changes to the load forecast methodology to be reasonable, the Panel also considers Nelson Hydro's forecast power purchase of \$3,526,702 to be reasonable, as this forecast is derived from the load forecast. Despite our observation that the data in Table 3 for actual purchased demand seems inconsistent with Nelson Hydro's revised methodology, we are satisfied that the Flow-Through Variance Deferral Account, discussed in Section 2.4 below, will help mitigate imprecision in the power purchase forecast.

### 2.2 Capital Additions

Nelson Hydro states that it is facing significant budget pressure in 2024, with capital projects accounting for approximately a third of the requested rate increase to Rural ratepayers.<sup>32</sup> Nelson Hydro provides in Table 4 below, the 2024 capital budget for the utility as a whole, \$4,759,239, which is the sum of Urban, Rural and Common (both Rural and Urban). Only Rural and a portion of Common capital additions contribute to Nelson Hydro's Rural revenue requirement and by extension the Rural rate increase.<sup>33</sup>

<sup>&</sup>lt;sup>32</sup> Exhibit B-1, p. 42.

<sup>&</sup>lt;sup>33</sup> Exhibit B-4, Appendix 12.

Category Name	Description	Urban	Rural	Common
Rebuilds / Pole Placements	Poles - City	35,500		
	Poles - North Shore		557,313	
	Poles - South Shore		170,000	
New Services	New Services - Flat Rate -City	210,100		
	New Services - Flat Rate - SS		105,100	
	New Services - Flat Rate NS		157,600	
Power Plant Capital	G3 & G4 Excitation System			55,000
	G2, G3 & G4 Pressure Vessel			120,000
	Generator/Turbine Major Maintenance			225,000
	Power Plant Intake Repairs			139,000
	Other Plant Projects			77,420
Substation Upgrades	Mill Street Substation Upgrade (net of Insurance claim)			1,959,363
SCADA Capital	SCADA Upgrades			35,000
Hydro Meters	Meter Replacements			56,000
Other Projects	Battery Energy Storage System (BESS)			430,000
	Geographic Information System (GIS)			180,000
	New Project Scoping and Other		150,000	96,843
Total Capital		245,600	1,140,013	3,373,626

### Table 4: 2024 Capital Budget (abbreviated)<sup>34</sup>

During the proceeding, Nelson Hydro provided the following updates to its 2024 capital budget:

- The Battery Energy Storage System (BESS) project did not get the necessary project funding approved by the City Council and the project will not proceed.<sup>35</sup> Nelson Hydro states that it will expense the Rural portion of the costs spent to date by means of a deferral account that it will propose as part of its 2025 RRA.<sup>36</sup>
- It removed \$187,648 from the 2024 capital budget, as this is the forecast amount of capital revenue earned from new services (new customers) in both Rural and Urban regions and was omitted in the rate model by oversight. The 2024 forecast capital revenue for new services of \$187,648 is based on 2023 projected revenue plus a 2 percent growth factor.<sup>37</sup>
- Certain items included in the 2024 capital budget, shown in Table 4 above, will not be capitalized in 2024 and are therefore not included in the calculation of the proposed rate increase for 2024. These items include 'System Control and Data Acquisition (SCADA) upgrades' and 'New Project Scoping'.<sup>38</sup>
- The Power Plant Intake Repairs work planned in 2024 is part of a multi-year project that has a total projected cost of \$4.4 million and a projected timeline of 2024 to 2029.<sup>39</sup> This project was initiated following a Dam Safety Review that was completed in 2023.<sup>40</sup>

<sup>&</sup>lt;sup>34</sup> Exhibit B-1, p. 26.

<sup>&</sup>lt;sup>35</sup> Exhibit B-4, BCUC IR 7.1.

<sup>&</sup>lt;sup>36</sup> Exhibit B-4, BCUC IR 7.1.

<sup>&</sup>lt;sup>37</sup> Exhibit B-4, BCUC IR 9.2.

<sup>&</sup>lt;sup>38</sup> Exhibit B-4, BCUC IR 9.1.

<sup>&</sup>lt;sup>39</sup> Exhibit B-1, p. 26.

<sup>&</sup>lt;sup>40</sup> Exhibit B-1, p.11, Exhibit B-4, Appendix 8.2.1.

 Nelson Hydro expects to complete the Mill St. Substation upgrade project in 2024. As such, Nelson Hydro proposes a capital addition of \$5,947,718, identified as Common, which represents the total cost of the multi-year project, net of insurance claim.<sup>41</sup> Further discussion of the Mill St. Substation upgrade project is provided in Section 2.2.1.

Therefore, Nelson Hydro identifies that the total capital additions proposed for 2024 is \$7,743,945 for the utility as a whole, instead of \$4,759,239 in Table 4 above. As Table 5 below shows, \$908,625 is identified as Rural and \$6,639,981 is identified as Common.<sup>42</sup>

	Urban	Common	Rural
Primary Poles	\$35,500	\$0	\$727,313
Polemount Transformers	\$126,799	\$0	\$158,352
Generating Stations	\$0	\$692,263	\$0
Substations	\$0	\$5,947,718	\$0
Hydro Meters	\$33,040	\$0	\$22,960
2024 Totals:	\$195,339	\$6,639,981	\$908,625

### Table 5: 2024 Capital Additions<sup>43</sup>

In the next sections, we discuss the largest 2024 capital addition, the Mill St. Substation upgrade project and Nelson Hydro's submission that no contribution or amortization expense adjustment is required with respect to Rural ratepayers because they have not contributed to Nelson Hydro's capital reserve fund.

### 2.2.1 Mill St. Substation Upgrade Project

The Mill St. Substation upgrade project replaces end-of-life assets, including two 20/25 megavolt amperes (MVA) transformers, and involves the installation of a new 72.5 kilovolt (kV) vacuum circuit breaker and conversion of all 25 kV substation infrastructure from outdoor reclosers to indoor switchgear.<sup>44</sup> In its 2022 RRA, Nelson Hydro identified that an unexpected, wildlife-initiated failure had occurred on one of its transformers (T41) at the Mill St. Substation in July 2021 and thus it had to accelerate its plans to upgrade the facility.<sup>45</sup>

This is a multi-year project, which Nelson Hydro first identified in its 2022 RRA as having an expected total cost of \$2.3 million.<sup>46</sup> In its 2023 RRA, Nelson Hydro provided two separate updates escalating the expected cost of the project to \$8.3 million due to several factors including: geotechnical investigations; significant civil work required to design and install foundations to meet current engineering and regulatory standards; contaminated soil requiring remediation; and supply chain and inflationary pressures. In the current proceeding, Nelson Hydro

<sup>&</sup>lt;sup>41</sup> Exhibit B-4, BCUC IR 6.4.

<sup>&</sup>lt;sup>42</sup> Exhibit B-4, Appendix 12, "Capital" Tab.

<sup>&</sup>lt;sup>43</sup> Exhibit B-4, Appendix 12, "Capital" Tab. Table prepared by BCUC Staff.

<sup>44</sup> Nelson Hydro 2022 RRA, Exhibit B-3, BCUC IR 17.2.

<sup>&</sup>lt;sup>45</sup> Nelson Hydro 2022 RRA, Exhibit B-1, p. 23.

<sup>&</sup>lt;sup>46</sup> Nelson Hydro 2022 RRA, Exhibit B-1, p. 24.

confirms that the total expected cost of this project is \$8.3 million. Nelson Hydro expects that it will recover \$2.6 million of the total cost from an insurance claim against the T41 failure but notes that the insurer is still reviewing the claim and has not provided an estimate on when Nelson Hydro can expect a response.<sup>47</sup>

Nelson Hydro proposes to add \$5.95 million into rate base during the test period because it expects to complete the project by the end of 2024. It also states that the project is on track to complete within 10 percent of the \$8.3 million expected cost.<sup>48</sup>

### 2.2.2 No Adjustments to Mill St. Substation Upgrade Project Capital Additions

Nelson Hydro finances its capital expenditures through a capital reserve fund, into which it transfers an amount collected annually from ratepayers.<sup>49</sup> In 2017, the BCUC accepted this practice, noting that the "methodology differs significantly from that employed by other utilities regulated by the Commission but given the restriction on the amount of debt that can be incurred and the fact that Nelson Hydro follows municipal accounting standards which allow for the use of a capital reserve fund, the Panel considers the use of the capital reserve fund as providing orderly ongoing management of needed capital purchases while also providing a reasonable degree of rate stability."<sup>50</sup> Nelson Hydro's capital reserve transfers between 2017 and 2022 averaged \$2.7 million annually.<sup>51</sup> Nelson Hydro does not make any allocation in the annual transfer to the capital reserve fund by Rural ratepayers and in 2019, the BCUC found this to be unreasonable, stating that it was "not persuaded that it is reasonable for Nelson Hydro to arbitrarily assign the capital reserve transfer exclusively to Urban customers."<sup>52</sup>

Nelson Hydro confirms that it used the capital reserve to fund the Mill St. Substation upgrade project in 2023, but it did not adjust the project's amortization expense with respect to Rural ratepayers to account for the capital reserve used for the project. Nelson Hydro states that it allocates the capital reserve transfers to Urban ratepayers because Rural ratepayers have not paid sufficient rates over the years to build any capital reserve balances in their favour and therefore, no contribution or amortization expense adjustments are required.<sup>53</sup> Nelson Hydro submits that between 2015 and 2019, Rural customers paid rates that were too low to generate any surplus for capital reserve transfers. Nelson Hydro did not provide any data from 2019 onward, stating that for this period, "it is very difficult to retroactively provide a detailed quantification of balances" and that Nelson Hydro's transition to a full return on equity model has been ongoing.<sup>54</sup>

### Panel Determination

The Panel considers that Nelson Hydro's 2024 capital additions in the amount of \$908,625 for Rural and \$6,639,981 for Common are reasonable.

<sup>&</sup>lt;sup>47</sup> Exhibit B-4, BCUC IR 6.1, 6.2 and 6.3.

<sup>&</sup>lt;sup>48</sup> Exhibit B-4, BCUC IR 6.1.

 <sup>&</sup>lt;sup>49</sup> Nelson Hydro Final Argument, p. 6; Nelson Hydro 2017 Rate Application, Decision and Order G-119-17 dated August 8, 2017, p. 4.
 <sup>50</sup> Nelson Hydro 2017 Rate Application, Decision and Order G-119-17, pp. 14–15.

<sup>&</sup>lt;sup>51</sup> Prior to the Nelson Hydro Cost of Service Analysis and Rate Design Decision in July 2022, Nelson Hydro's RRAs were based on its forecast costs for the utility as a whole. Nelson Hydro's capital reserve transfers prior to this decision were: \$2.3 million (2017), \$2.5 million (2018), \$2.9 million (2019), \$3.3 million (2021), \$2.7 million (2022), resulting in an average amount of \$2.7 million (Exhibit B-5, Panel IR 2.1).

<sup>&</sup>lt;sup>52</sup> Nelson Hydro 2019 Rural Rate Application, Decision and Order G-274-19 dated November 7, 2019, pp. 9–10.

<sup>&</sup>lt;sup>53</sup> Exhibit B-4, BCUC IR 6.5, 6.5.1.

<sup>&</sup>lt;sup>54</sup> Exhibit B-5, Panel IR 2.1.

We find that Nelson Hydro has provided adequate support for its 2024 capital additions for Rural and Common, the majority of which are for the Mill St. Substation upgrade project. We acknowledge that the total project cost estimate for the Mill St. Substation upgrade project (\$8.3 million) less the expected insurance claim (\$2.6 million) is \$5.7 million, which differs from the proposed capital addition (\$5.95 million). Until the insurance claim is resolved, however, the precise amount to be added to rate base remains uncertain. Nelson Hydro indicates that the new assets will go into service in 2024. The Panel is satisfied that Nelson Hydro has established the need for the project because the existing assets are at end-of-life and the wildlife incident accelerated the timing.

A further issue to consider is whether any adjustments to capital additions are necessary for the Mill St. Substation upgrade project. We note that customer rates were set with a component dedicated to capital reserve transfers between 2017 and 2022, and that Nelson Hydro allocated 100 percent of these transfers to Urban customers. The BCUC found in 2019 that it was unreasonable for Nelson Hydro to assign capital reserve transfers only to Urban customers. The fact that Nelson Hydro does not allocate any of these transfers to Rural customers means, in the case of the Mill St. Substation upgrade project, that Rural customers do not receive the benefit from the reduced amortization expense on the net capital addition.

However, we are persuaded that it would not be efficient for us to direct Nelson Hydro to conduct a study to identify capital reserve transfers attributable to Rural ratepayers for the Mill St. Substation upgrade project. A regulatory review of such capital reserve transfer adjustment or allocation would likely involve judgement and uncertainty that may not justify the costs of conducting such a study. In addition, now that Nelson Hydro allocates costs to Rural ratepayers based on the BCUC-approved cost-of-service analysis, we accept that it is not practical for Nelson Hydro to associate past capital reserve transfers with the Mill St. Substation upgrade project. Therefore, we are satisfied that no capital addition adjustment for the Mill St. Substation upgrade project is warranted.

### 2.3 Revenue Variance Deferral Account

The 2023 Revenue Variance Deferral Account was approved in the 2023 RRA Decision to record the difference between 2023 interim and permanent rates and attracting interest at Nelson Hydro's weighted average cost of capital. The amortization period is to be addressed as part of the current 2024 RRA. Nelson Hydro proposes to expand the scope of the 2023 Revenue Variance Deferral Account to capture variances between interim rates and permanent rates resulting from this 2024 RRA, as well as future RRAs.<sup>55</sup>

Nelson Hydro submits that maintaining this account would ultimately benefit both the utility as well as ratepayers.<sup>56</sup> Nelson Hydro also submits that it would incur administrative costs in the range of approximately \$25,000 to \$30,000 to immediately refund to customers any variance between the interim rates and permanent rates from this 2024 RRA.<sup>57</sup> Nelson Hydro proposes an amortization period of five years for the Revenue Variance Deferral Account.<sup>58</sup>

<sup>&</sup>lt;sup>55</sup> Exhibit B-4, BCUC IR 10.1.

<sup>&</sup>lt;sup>56</sup> Exhibit B-1, p. 32.

<sup>&</sup>lt;sup>57</sup> Exhibit B-4, BCUC IR 10.3.

<sup>&</sup>lt;sup>58</sup> Exhibit B-3, p. 4.

### Panel Determination

**The Panel approves Nelson Hydro's request to expand the scope of the 2023 Revenue Variance Deferral Account**, which it must rename to the Revenue Variance Deferral Account, to record the revenue difference between interim and permanent rates that flow from this 2024 RRA, as well as future RRAs upon request from Nelson Hydro and approval by the BCUC. Given the expected administrative cost of providing an immediate refund to customers, we consider it is more appropriate to record any variances between interim rates and permanent rates in a deferral account. Further, we approve the account to continue to attract carrying costs at Nelson Hydro's weighted average cost of capital and direct an amortization period of five years beginning from January 1, 2024.

For clarity, although we are approving this deferral account for future RRAs, the decision rests with future BCUC panels to determine the treatment of variances between interim and permanent rates in future revenue requirements.

### 2.4 Flow-Through Variance Deferral Account

Nelson Hydro submits that under the current regulatory model of calculating rates based on forecast revenues and expenses, some mechanism is required to true-up variances between forecast and actuals.<sup>59</sup> Therefore, Nelson Hydro proposes to establish a Flow-Through Variance Deferral Account to flow through variances between all actual and forecasted revenues and expenses that are considered uncontrollable in nature. Nelson Hydro explains that such an account will ensure that customers pay the actual costs of services they receive.<sup>60</sup> Nelson Hydro proposes that the Flow-Through Variance Deferral Account attract Nelson Hydro's approved weighted average cost of capital, with an amortization period of five years.<sup>61</sup>

Nelson Hydro proposes that the following uncontrollable items be included in the Flow-Through Variance Deferral Account:

- a) Revenues Nelson Hydro explains that revenues in its rate applications are forecast based on expected sales volumes. The Flow-Through Variance Deferral Account would capture the difference between the forecast and actual revenues for a fiscal year. Nelson Hydro views that the uncontrollable nature of revenues largely pertains to use per customer as opposed to customer additions.<sup>62</sup>
- b) Power Purchase Expenses Nelson Hydro explains that power purchase costs are uncontrollable in nature, as they are driven by customer usage and weather patterns and can therefore lead to higher than forecasted demand charges.<sup>63</sup> The Flow-Through Variance Deferral Account is only meant to capture variances in forecast and actual power purchase costs from FortisBC.<sup>64</sup>
- c) Amortization Expenses Nelson Hydro explains that amortization expenses, for the purpose of ratesetting, are forecast based on estimated mid-year capital and assumptions on asset disposal to determine the applicable amortization rates. Actual amortization expenses may differ due to

<sup>&</sup>lt;sup>59</sup> Exhibit B-1, p. 34.

<sup>&</sup>lt;sup>60</sup> Exhibit B-1, p. 37.

<sup>61</sup> Exhibit B-1, pp. 34, 36.

<sup>&</sup>lt;sup>62</sup> Exhibit B-1, p. 37, Exhibit B-4, BCUC IR 12.1.

<sup>63</sup> Exhibit B-1, p. 37, Exhibit B-4, BCUC IR 12.1.2.

<sup>&</sup>lt;sup>64</sup> Exhibit B-4, BCUC IR 12.6.

uncontrollable factors affecting capital projects such as construction delays and weather-related events. Such variances will be captured in the Flow-Through Deferral Account.<sup>65</sup>

d) Regulatory Costs – Nelson Hydro explains that regulatory costs include fees paid to consultants and legal counsel, as well as participant cost awards.<sup>66</sup> These costs are considered uncontrollable in nature due to the unpredictability of participant cost awards and the protracted nature of recent proceedings.<sup>67</sup>

Nelson Hydro also confirms that if the Flow-Through Deferral Account is approved as proposed, the remaining portions of its revenue requirement that would be subject to forecast risk would be its controllable costs, including its operations and maintenance expenses.<sup>68</sup>

### Panel Determination

The Panel approves Nelson Hydro's request to establish a Flow-Through Variance Deferral Account to capture variances between uncontrollable actual and forecast revenues and expenses related to power purchases and regulatory costs. The premise for such treatment is that if a utility has limited control over an item, or if there is a high degree of forecast uncertainty, it should not bear the risk of forecast variances. In such a situation, establishing a deferral account is appropriate. Nelson Hydro proposes four categories of items for this deferral account; one is revenue related and three are expense related.

We recognize that weather and customer usage patterns can lead to revenues and costs being uncontrollable and therefore a deferral account to capture variances between forecast and actuals is appropriate. Further, we approve the account to attract carrying costs at Nelson Hydro's weighted average cost of capital and direct an amortization period of five years. The Panel considers that an amortization period of five years strikes a reasonable balance between potential rate volatility and balance recovery.

We accept that costs related to Nelson Hydro's power purchases are largely beyond Nelson Hydro's control. It has no control over the price charged by its supplier, FortisBC, since the BCUC approves that rate, and customer usage and weather patterns are uncontrollable. Therefore, we approve variances between actual and approved power purchases expenses to be included in the Flow-Through Variance Deferral Account. Having said that, as noted in Section 2.1 above, we consider that Nelson Hydro's ability to derive a *reasonable* forecast of power purchase is within its control and recommend the BCUC continue monitoring the appropriate use of the Flow-Through Variance Deferral Account. Nelson Hydro is expected to fully explain any material variances between forecast and actual power purchase costs in future rate proceedings.

Likewise, Nelson Hydro's regulatory costs are also uncontrollable in part because regulatory requirements are determined by the BCUC. Therefore, we also approve variances between actual and forecast regulatory costs to be included in the Flow-Through Variance Deferral Account for fees paid to consultants and legal counsel, as well as participant cost awards.

We do not accept, however, that Nelson Hydro's amortization expense is an uncontrollable cost. Although a utility should not unduly bear the risk of forecast variances, utilities are also expected to build in some

<sup>&</sup>lt;sup>65</sup> Exhibit B-1, p. 37, Exhibit B-4, BCUC IR 12.7.

<sup>&</sup>lt;sup>66</sup> Exhibit B-1, p. 38.

<sup>67</sup> Exhibit B-4, BCUC IR 12.11.

<sup>68</sup> Exhibit B-4, BCUC IR 12.12.

contingency for certain items, including delays in capital projects. While we recognize that construction and weather delays can disrupt a capital project schedule, we are not persuaded that delays in capital projects are outside management's control and do not consider there is a need for a deferral account to capture such items.

Therefore, we deny Nelson Hydro's request to include variances between actual and forecast amortization in the Flow-Through Variance Deferral Account.

### 2.5 Overall Panel Determination on 2024 Rates

The Panel approves Nelson Hydro to increase its Rural rates by 4.21 percent, effective January 1, 2024, subject to any adjustments to Nelson Hydro's allowed return from the GCOC Stage 2 proceeding. In addition, we direct Nelson Hydro to record variances between the revenue collected at the interim rate increase of 6.2 percent and the approved rate increase of 4.21 percent in the Revenue Variance Deferral Account approved in Section 2.3 of this decision. We also direct Nelson Hydro to file tariff pages reflecting the 2024 rate increase for Rural customers by July 22, 2024, for endorsement by the BCUC.

The Panel has reviewed the various components of the revenue requirement, in particular, the two largest components: power purchases and the capital addition related to the Mill Street Substation upgrade project. We have accepted as reasonable, Nelson Hydro's load forecast and methodology, as well as the forecast power purchase that is derived from the load forecast. Further, we recognize that forecasting – whether overall load or power purchases – is both art and science, and we are satisfied that the Flow-Through Variance Deferral Account will help mitigate any imprecision in the power purchase forecast. In addition, we are satisfied that the proposed capital addition for the Mill Street Substation is reasonable. Therefore, we accept Nelson Hydro's calculated rate increase of 4.21 percent for 2024.

The Panel acknowledges that the approved interim rate increase of 6.2 percent is higher than the approved rate increase of 4.21 percent, and that we could direct Nelson Hydro to immediately refund the difference to ratepayers. In this case, however, we are persuaded that the 6.2 percent rate increase should continue in 2024 as requested by Nelson Hydro. The administrative cost to immediately refund customers is approximately \$25,000 to \$30,000, which makes up about 15 percent in transaction cost to adjust approximately \$183,000 (i.e. \$570,000 collection with 6.2 percent vs. \$387,000 with 4.21 percent). Further, additional adjustments to Nelson Hydro's 2024 Rural rates may be necessary depending on the outcome of the GCOC Stage 2 proceeding. We find that recording the difference in a deferral account with interest is the most appropriate arrangement for Nelson Hydro and its Rural ratepayers in this 2024 RRA.

# 3.0 Other Deferral Accounts

In the following sections, the Panel reviews Nelson Hydro's other approvals sought in Application that do not impact the 2024 rate increase for Rural ratepayers. Sections 3.1 and 3.2 discuss Nelson Hydro's requests to modify deferral accounts that it was directed to establish in previous decisions, while Sections 3.3 and 3.4 pertain to requests for new deferral accounts.

### 3.1 Debt Issuance Costs Deferral Account

In the 2023 Nelson Hydro RRA Decision, the BCUC directed Nelson Hydro to establish a non-rate base deferral account to capture the Rural service area portion of actual debt issuance costs incurred, up to \$79,000, to

acquire new debt in 2023 and to amortize the balance over the remaining term of the underlying debt beginning in 2023 (i.e. ten years).<sup>69</sup> The \$79,000 cap was based on Nelson Hydro's statement that a 10-year term and borrowing of \$790,000 would equate to \$79,000 of debt issuance costs over the term of the underlying debt.<sup>70</sup>

Nelson Hydro now seeks approval to establish the Debt Issuance Costs Deferral Account in perpetuity, with an amortization period that reflects the life of the underlying debt. Nelson Hydro explains that while it did not acquire any new debt in 2023, it anticipates acquiring new debt in the future and will use this deferral account to capture all future debt issuance costs.<sup>71</sup> Nelson Hydro confirms that unlike the cap of \$79,000 directed in the 2023 Nelson Hydro RRA Decision, it does not propose a cap for the amounts that can be recorded in the Debt Issuance Cost Deferral Account, as account balances will be identifiable and associated with specific debt instruments. Nelson Hydro proposes that the debt issuance costs attract carrying costs at Nelson Hydro's approved weighted average cost of capital.<sup>72</sup>

### Panel Determination

The Panel approves the establishment of a Debt Issuance Costs Deferral Account as proposed by Nelson Hydro, on an ongoing basis, to capture the Rural service area portion of actual debt issuance costs incurred. The Panel echoes the 2023 Nelson Hydro RRA Decision, in which the BCUC concluded that it is reasonable and appropriate for Nelson Hydro to be given the opportunity to recover its debt issuance costs and the timing of the recovery of these costs should be matched with the timing of the benefits of the underlying debt.<sup>73</sup>

The Panel approves the account to attract carrying costs at Nelson Hydro's weighted average cost of capital and directs an amortization period that reflects the life of the underlying debt.

The Panel notes that the \$79,000 cap in debt issuance costs directed in the 2023 Nelson Hydro RRA Decision was specific to the forecast 2023 debt issuance, which Nelson Hydro advises did not occur. The Panel accepts Nelson Hydro's submission that a cap is not required, as costs recorded in the deferral account in 2024 and onwards will be identifiable and associated with specific debt instruments.

### 3.2 Participant Assistance/Cost Award Deferral Account

On April 24, 2023, the BCUC awarded funding to two interveners for their participation in the Nelson Hydro Cost of Service Analysis and Rate Design proceeding for a total of \$85,879.<sup>74</sup>

Subsequently, Nelson Hydro applied for and received BCUC approval to establish a PACA funding cost deferral account to record the \$85,879 funding amount and to record carrying costs at its weighted average cost of debt. In Order G-133-23, the BCUC directed Nelson Hydro to address the following in its next rate application with the BCUC:

(1) The recoverability of the PACA Deferral Account; and

<sup>69 2023</sup> Nelson Hydro RRA Decision, p. 15.

<sup>&</sup>lt;sup>70</sup> 2023 Nelson Hydro RRA Decision, pp. 13, 15.

<sup>&</sup>lt;sup>71</sup> Exhibit B-3, pp. 4–5.

<sup>&</sup>lt;sup>72</sup> Exhibit B-3, pp. 4–5.

<sup>&</sup>lt;sup>73</sup> 2023 Nelson Hydro RRA Decision, p. 15.

<sup>74</sup> Order F-15-23 dated April 24, 2023.

(2) Subject to the BCUC's determination on recoverability, the proposed amortization period for the recovery of the PACA Deferral Account balance.

Nelson Hydro proposes to recover all of the PACA costs from Rural rates. Nelson Hydro submits that it is subject to BCUC regulation only with regard to its Rural operations, as the services provided to urban customers within its municipal boundaries are excluded from regulation under the UCA, and therefore the PACA costs incurred during the Nelson Hydro Cost of Service Analysis and Rate Design proceeding are fairly and reasonably allocated to the Rural customers.<sup>75</sup>

Nelson Hydro proposes an amortization period over the next three years (i.e. 2024, 2025 and 2026) to be carried at its approved weighted average cost of capital<sup>76</sup> since these costs result from the Nelson Hydro Cost of Service Analysis and Rate Design proceeding, which took approximately three years to complete.<sup>77</sup>

### Panel Determination

The Panel approves Nelson Hydro's proposal regarding the recovery of \$85,879 in PACA costs through the PACA Deferral Account, over a three-year amortization period commencing January 1, 2024, with carrying charges accrued at its weighted average cost of capital. Nelson Hydro's proposal is reasonable because it is a fair apportionment of costs among its regulated operations (Rural) and non-regulated (Urban) in alignment with cost causation principles.

In 2023, Nelson Hydro requested the PACA Deferral Account to carry the weighted average cost of debt which the BCUC approved. In this Application, Nelson Hydro does not explain why it is appropriate for the PACA Deferral Account carrying charges to now switch to the weighted average cost of capital. Nelson Hydro also proposes carrying charges at the weighted average cost of capital for all other deferral accounts in this 2024 RRA. In any case, we agree with the BCUC's finding in the 2023 RRA supporting Nelson Hydro's request for the use of weighted average cost of capital for carrying costs. The BCUC noted that there is no evidence to suggest deferral accounts would be financed only with debt instead of a more reasonable assumption that Nelson Hydro finances all of its operations with a combination of both debt and equity.<sup>78</sup> Therefore, **the PACA Deferral Account is approved to attract Nelson Hydro's weighted average cost of capital, effective January 1, 2024.** 

### 3.3 Cybersecurity Audit Deferral Account

On December 23, 2022, the BCUC initiated a comment process regarding a two-year pilot of a cybersecurity framework for public utilities in BC (Cybersecurity Framework Pilot) to assess utilities' effectiveness in addressing public utility cybersecurity risk. The BCUC issued its decision on June 2, 2023,<sup>79</sup> and among other matters, noted that it would consider the merits of any requests regarding the recovery of costs associated with the pilot upon request by a public utility.<sup>80</sup>

<sup>&</sup>lt;sup>75</sup> Exhibit B-1, p. 38.

<sup>&</sup>lt;sup>76</sup> Exhibit B-1, Table 6-2, pp. 36–37.

<sup>&</sup>lt;sup>77</sup> Exhibit B-4, BCUC IR 14.1.

<sup>&</sup>lt;sup>78</sup> Nelson Hydro 2023 RRA Decision, p. 25.

<sup>&</sup>lt;sup>79</sup> Establishment of a Two-Year Pilot of a Cybersecurity Framework for Public Utilities Decision and Order G-126-23 dated June 2, 2023, p. 3.

Nelson Hydro proposes to establish a new deferral account to capture Cybersecurity Framework costs incurred in 2023 (approximately \$35,000) over the next two years (i.e. 2024 and 2025) to be carried at its approved weighted average cost of capital.<sup>81</sup> Nelson Hydro proposes a two-year amortization period, as the BCUC's pilot program for cybersecurity is a two-year period.<sup>82</sup>

### Panel Determination

**The Panel approves Nelson Hydro's request to establish a new Cybersecurity Audit Deferral Account** with carrying costs at Nelson Hydro's weighted average cost of capital, effective January 1, 2024, to record \$35,000 for cybersecurity audit costs incurred in 2023. The Panel approves the proposed two-year amortization period, which corresponds to the BCUC's two-year pilot Cybersecurity Framework Pilot.

When Nelson Hydro incurred cybersecurity audit costs, however, its 2023 rates were already set on a permanent basis. Once rates are made permanent, the BCUC does not allow recovery or refunds on a retroactive basis because retroactive ratemaking erodes the general principles of fairness and certainty. There are exceptions, however, to the rule against retroactive ratemaking, including setting rates on an interim basis that are subject to later adjustment and the recognition of amounts in deferral accounts to be carried forward and to be disposed of in future years.<sup>83</sup> We are satisfied that the threshold has been met in this case to make an exception on retroactive ratemaking for the reasons stated below.

Nelson Hydro filed its 2023 RRA in October 2022 and the Cybersecurity Framework Pilot proceeding commenced in December 2022. It is unreasonable to expect Nelson Hydro to forecast 2023 costs related to the Cybersecurity Framework Pilot or seek approval of a deferral account at the time of its 2023 RRA filing. In response to the Cybersecurity Framework Pilot Decision in June 2023, Nelson Hydro incurred costs in 2023 to assess its cybersecurity matters as per the BCUC guidelines. Further, the BCUC had contemplated that applications for the recovery of costs will be forthcoming after the Cybersecurity Framework Pilot Decision. Nelson Hydro has taken the first opportunity in a rate application to request the establishment of a new deferral account. Therefore, based on the circumstances, the Panel accepts that establishing a new deferral account for the Cybersecurity Framework Pilot is appropriate and the costs are reasonable to recover from ratepayers. In future instances, Nelson Hydro is reminded that requests for a deferral account should be made before incurring any costs. Otherwise, the utility may be at risk of non-recovery.

### 3.4 Provincial Cost of Living Credit Deferral Account

On November 18, 2022, the Province of BC issued Order in Council (OIC) 571/2022 for a one-time cost-of-living credit to all eligible residential and commercial electric customers through a BC Hydro bill credit, including those who receive service from a municipality like Nelson Hydro. Pursuant to the OIC, Nelson Hydro received an amount of \$417,254 as a cost-of-living credit from BC Hydro to be applied as a one-time \$100 bill credit to all eligible Rural customers. Nelson Hydro explains that out of the total amount received, it applied an amount of \$402,504 to all eligible Rural customers as of October 1, 2023.<sup>84</sup>

<sup>&</sup>lt;sup>81</sup> Exhibit B-1, pp. 33–34, pp. 36–38.

<sup>&</sup>lt;sup>82</sup> Exhibit B-4, BCUC IR 13.1.

<sup>&</sup>lt;sup>83</sup> 2022 Revenue Requirements Application for the PNG-West Division, Decision and Order G-281-22 dated October 11, 2022.

<sup>&</sup>lt;sup>84</sup> Exhibit B-1, p. 39.

Nelson Hydro requested and received confirmation from the Ministry of Energy, Mines and Low Carbon Innovation (EMLI) that there is no expectation or requirement for Nelson Hydro to return the residual funds to either BC Hydro or the Province of BC. Furthermore, Nelson Hydro submits that EMLI agreed that the remaining funds could be used to benefit all customers through rates, which is consistent with the purpose of the bill credits.<sup>85</sup>

Nelson Hydro now proposes to establish a deferral account to capture the residual balance of the cost-of-living credit from BC Hydro (i.e. \$14,750). The deferral account will be used to return the residual balance to Rural Customers through rates over a one-year amortization period, beginning January 1, 2024.<sup>86</sup> Nelson Hydro proposes that this deferral account be non-rate base and attract carrying costs at Nelson Hydro's approved weighted average cost of capital.<sup>87</sup>

### Panel Determination

**The Panel approves the establishment of the Provincial Cost of Living Credit Deferral Account,** to capture the residual balance of the one-time cost of living credit received from BC Hydro, with amortization period of one year, attracting carrying costs at Nelson Hydro's approved weighted average cost of capital, commencing January 1, 2024. The Panel considers that Nelson Hydro's proposed approach is reasonable and will ensure the timely return of the cost-of-living credit back to customers.

### 4.0 Future Rate Change Applications

In the 2019 Nelson Hydro Rural Rates Decision, the BCUC directed Nelson Hydro to discuss, in its next rate application, the merits and timing of a multi-year rate application and consider any regulatory efficiency that may be gained.<sup>88</sup> During the Nelson Hydro Cost of Service Analysis and Rate Design proceeding in 2022, Nelson Hydro submitted that while a multi-year rate plan could lead to regulatory efficiency, this may be challenging because it purchases a significant portion of its power from FortisBC, which results in Nelson Hydro seeking rate changes due to changes in the cost of power purchases from FortisBC.<sup>89</sup>

In this Application, Nelson Hydro discusses the pros and cons of the following other mechanisms that it could apply to achieve regulatory efficiency instead of annual rate applications:<sup>90</sup>

- a) Multi-year rate application Nelson Hydro states that while this mechanism could ease the annual regulatory burden, it would require additional resources to prepare and review the first multi-year rate application, although future multi-year rate plans would require less effort assuming no significant changes are required.
- b) Automatic rate-setting mechanism based on a formulaic approach This approach would involve indexing Rural rates to FortisBC Inc. or another utility in BC. Nelson Hydro submits that this mechanism would be the simplest to implement and regulate, however, there is risk to Nelson Hydro that rate increases in another utility may not align with the cost of service for Rural ratepayers.

<sup>&</sup>lt;sup>85</sup> Exhibit B-1, p. 39.

<sup>&</sup>lt;sup>86</sup> Exhibit B-1, p. 39.

<sup>&</sup>lt;sup>87</sup> Exhibit B-1, pp. 36–37.

<sup>&</sup>lt;sup>88</sup> 2019 Nelson Hydro Rural Rates Decision, p. 18.

<sup>&</sup>lt;sup>89</sup> Cost of Service Analysis and Rate Design proceeding, Exhibit B-4, BCUC IR 45.1 and 45.1.1.

<sup>&</sup>lt;sup>90</sup> Exhibit B-4, BCUC IR 16.1 and 16.1.1.

- c) Limited regulatory review process if proposed Rural rate change is within a certain percentage band Nelson Hydro submits that this approach may reduce regulatory burden for inflation-driven rate increases, however, it could lead to less than fair return for the utility, as there may be temptation to keep rate increases below the percentage band to avoid regulatory process of a higher increase.
- d) Combination of mechanisms b) and c) In this approach, Nelson Hydro would index Rural rates to FortisBC or another utility in BC, however, if the proposed Rural rate change is within a certain percentage band, limited regulatory review process could be undertaken.
- e) Limited regulatory review process (summary-based) Prior to 2017, Nelson Hydro submitted a short summary each year, indicating its City-approved, planned and high-level supporting information. Since the cost of service has been established, this approach is most favourable to the utility.

Nelson Hydro states that it would welcome a more efficient approach to rate-setting.

### Panel Discussion

Nelson Hydro indicates its preference for the pre-2017 limited regulatory review process for future proceedings. The Panel recognizes that Nelson Hydro is in a unique position compared to other public utilities, in that only a portion of its operations is regulated by the BCUC. Now that the BCUC has determined Nelson Hydro's cost-ofservice analysis for Rural ratepayers and approved regulatory accounts for Nelson Hydro's uncontrollable costs, we agree that there are merits of having limited regulatory oversight in future proceedings, which could enhance regulatory efficiency and cost reduction. We recommend that the BCUC consider these factors in future reviews.

Although it is ultimately up to Nelson Hydro to propose the format for its future rate applications, the Panel also considers that the mechanisms canvassed during this proceeding could possibly improve regulatory efficiency, and merit further examination. We urge Nelson Hydro to explore alternatives to annual rate applications. For example, as the BCUC noted in the 2019 Nelson Hydro Rural Rates Decision, Nelson Hydro and its ratepayers may benefit from having rates set for multiple years rather than one year at a time, thus mitigating the regulatory burden of an annual proceeding.<sup>91</sup> Even though Nelson Hydro submits that a multi-year rate forecast may be challenging, perhaps the consideration of a two-year test period is feasible as a starting point in light of the various regulatory accounts approved in this RRA that help mitigate forecast risks. We encourage Nelson Hydro to consider the merits of each of the alternatives that are most suitable for its future Rural rate applications.

<sup>&</sup>lt;sup>91</sup> 2019 Nelson Hydro Rural Rates Decision, p. 18.

Original signed by:

E. B. Lockhart Panel Chair/Commissioner

Original signed by:

M. Jaccard Commissioner

Original signed by:

W. E. Royle Commissioner

# Nelson Hydro 2024 Revenue Requirements

### LIST OF ACRONYMS AND TERMS

Acronym/Term	Description
Application	On October 31, 2023, Nelson Hydro filed an application with the British Columbia Utilities Commission seeking approval of a general annual rate increase of 6.2 percent for the Rural service area, among other matters, pursuant to sections 59 to 61 of the <i>Utilities Commission Act</i>
BCUC	British Columbia Utilities Commission
BESS	Battery Energy Storage System
Common	Assets and costs that cannot be allocated 100 percent to the Urban or Rural service areas and are broken out to all customers based on usage
EMLI	Ministry of Energy, Mines and Low Carbon Innovation
Evidentiary Update	On January 15, 2024, Nelson Hydro filed an evidentiary update to incorporate the BCUC's directives from the Nelson Hydro 2023 Revenue Requirements Application
FortisBC	FortisBC Inc.
GCOC	Generic Cost of Capital
IR	Information Request(s)
kV	Kilovolt
kWh	Kilowatt Hour
MVA	Megavolt Amperes
OIC	Order in Council
РАСА	Participant Assistance/Cost Award
RRA	Revenue Requirement Application
Rural	Areas outside the City of Nelson's boundaries
SCADA	System Control and Data Acquisition
UCA	Utilities Commission Act
Urban	Areas within the City of Nelson's boundaries

### Nelson Hydro 2024 Revenue Requirements

### **EXHIBIT LIST**

# Exhibit No.DescriptionCOMMISSION DOCUMENTSA-1Letter dated November 10, 2023 – Appointing the Panel for the review of the Nelson Hydro<br/>2024 Revenue Requirements ApplicationA-2Letter dated November 24, 2023 – BCUC Order G-321-23 establishing a regulatory<br/>timetable and Public NoticeA-3Letter dated January 29, 2024 – BCUC Information Request No. 1 to Nelson HydroA-4Letter dated March 12, 2024 – BCUC Order G-66-24 establishing an amended regulatory<br/>timetable

A-5 Letter dated March 12, 2024 – Panel Information Request No. 1 to Nelson Hydro

### **APPLICANT DOCUMENTS**

B-1	Nelson Hydro – 2024 Revenue Requirements Application dated October 31, 2023
B-2	Letter dated December 12, 2023 – Nelson Hydro submitting confirmation of Public Notice in compliance with Order G-321-23
B-3	Letter dated January 15, 2024 – Nelson Hydro submitting evidentiary update
B-4	Letter dated February 22, 2024 – Nelson Hydro response to BCUC Information Request No. 1
B-5	Letter dated March 28, 2024 – Nelson Hydro response to Panel Information Request No. 1

### LETTERS OF COMMENT

D-1 LOPEZ-PEREZ, L. (LOPEZ-PEREZ) – Letter of Comment dated November 14, 2023