

# THE CORPORATION OF THE CITY OF NELSON

## REQUEST FOR DECISION

**DATE:** November 22, 2022 – Special  
**TOPIC:** Hydro Services Bylaw (Rural Rates) Amendment No. 3559, 2022  
**PROPOSAL:** Pass first three readings for bylaw amendment  
**PROPOSED BY:** Staff

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### ANALYSIS SUMMARY:

On September 23, 2022 and October 21, 2022, Nelson Hydro presented to Council with regard to its 2023 budget and the corresponding need for annual general rate increases from the Rural service area. Council provided staff with direction to move forward with implementing a 9.87 percent annual general rate increase for the Rural service area.

Hydro Services Bylaw (Rural Rates) Amendment No. 3559, 2022 is now presented to Council for first three readings.

### BACKGROUND:

On October 28, 2022, Nelson Hydro submitted a rate application (2023 Revenue Requirement Application or 2023 RRA) to the BC Utilities Commission (BCUC) requesting approval for a 9.87 percent rate increase for the utility's Rural service area. The 9.87% rate increase is proposed to become effective on January 1, 2023.

Submission of the 2023 RRA is a notable milestone for the utility as it marks the first time Nelson Hydro has filed a rate application that is supported by a Commission-approved Cost of Service Analysis (COSA) study. The Commission-approved COSA results from a 2-year long proceeding and was subjected to a number of modifications as directed by the Commission. The COSA provides a model that allocates the utility's various costs amongst the Rural and Urban service areas to allow rates to be set in a manner that reflects the cost of service for these areas. Servicing the Rural area has always been a costlier endeavor given the low-density customer base that lives in heavily vegetated areas.

Notably, the Commission-approved COSA did not adopt the utility's proposed allocations on generation and power purchases. As a result, the COSA being used treats both as common costs (i.e., allocated equally to both Urban and Rural). Additionally, the Commission directed Nelson Hydro to utilize a deemed debt of 50% in calculating its return on Rural equity. Both of these matters impact rate setting. While the 2023 RRA adheres to the Commission decisions, both matters are the subject of Nelson Hydro's Application for Reconsideration that will soon be filed. As mentioned below, the 2023 RRA includes a proposed deferral account to allow the utility to recover any additional amounts it may be entitled to depending on the outcome of the Application for Reconsideration.

As detailed to Council at the Hydro Budget Presentations, the 9.87 percent rate increase is attributable to the following:

- the 3.99 percent general rate increase sought by Nelson Hydro's power supplier, FortisBC, which also seeks an effective date of January 1, 2023;
- significant inflationary pressures (approx. 5.35 percent on materials and services);
- increased vegetation management costs.

Staff have carefully scrutinized the 2023 budget to try and reduce rate pressure where possible. Notably, the 2023 operating budget for the utility as a whole is budgeted at only 1.6% percent higher than in 2022.

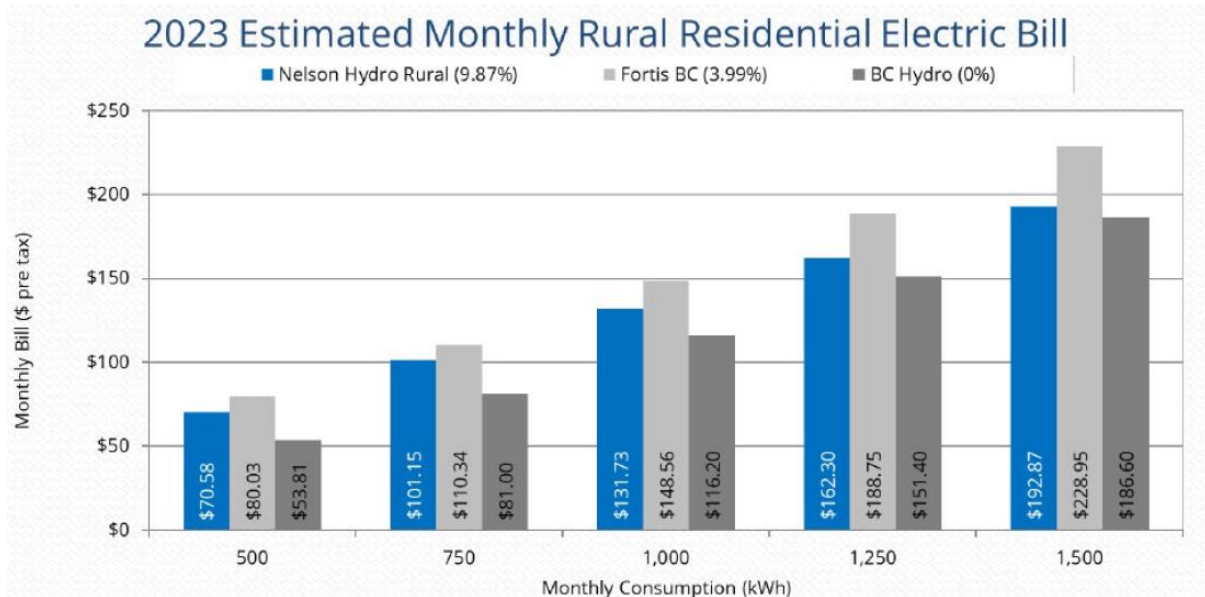
To understand the 9.87 percent result it is important to note that since the 2019 year (the baseline for the approved COSA), the BCUC has reviewed and approved rate applications for

the utility as a whole that included increased expenditures in the Rural service areas. Such increased expenditures, included, for example increased vegetation management expenses in the Rural service area to improve service reliability. As those rate applications concerned the utility as a whole, those increased expense levels were allocated across both service areas rather than only to the Rural area. Now, with the Commission-approved COSA, these ongoing expenditures can be properly allocated directly to the Rural service area, which amounts to a sizeable portion of the total rate increase. Notably, the increased vegetation management efforts do appear to be working as the utility's reliability metrics in the Rural area have significantly improved over the last few years.

Notably, the 2023 RRA also seeks approval for the creation of two deferral accounts:

- a temporary deferral account to allow the utility to track revenue it may be entitled to depending on the outcome of the utility's Reconsideration Application based on aspects of the Commission's decision on the COSA; and
- a permanent storm regulatory deferral account to allow the utility to smooth the impact of major storm costs.

While a 9.87% rate increase is significant, Nelson Hydro's Rural rates remain competitive when compared to FortisBC and BC Hydro. Notably, FortisBC and BC Hydro have inclining residential rates whereas Nelson Hydro has flat residential rates. Accordingly, a direct comparison of the rates is not possible. Rather, the best comparison is to examine specific levels of consumption as show below:



To summarize what is shown in the figure, for all consumption levels at the 2023 proposed rate, Nelson Hydro's Rural Residential rates result in a higher bill amount than BC Hydro's rates, and a lower bill amount than FortisBC's rates.

#### **BENEFITS OR DISADVANTAGES AND NEGATIVE IMPACTS:**

Amending the Hydro Services bylaw to implement new rates for the Rural service areas will allow Nelson Hydro to operate in a sustainable manner by ensuring that it can meet its Rural revenue requirement for 2023.

#### **LEGISLATIVE IMPACTS, PRECEDENTS, POLICIES:**

Rate setting in Nelson Hydro's Rural area is regulated by the BCUC. Before the rate can be implemented by bylaw, the BCUC must first approve of the requested rate change. In this regard, and based on earlier Council direction, on October 28, 2022 staff filed the 2023 RRA with the BCUC requesting approval for the proposed 9.87 percent annual rate increase.

Although a final decision will not be rendered by January 1, 2023, the utility requested interim rate approval to allow the requested rates to be implemented on January 1, 2023. Council is able to proceed with first three readings in advance of interim approval; the bylaw will only be presented for adoption once interim approval is granted.

The rate increase proposed in the 2023 RRA will re-establish a historical rate differential between the utility's Rural and Urban ratepayers. This outcome follows from use of the Commission-approved COSA and is consistent with direction from the Commission as set out in Order G-274-19 (the 2019 Rate Increase Proceeding) where it stated that an approved COSA was needed to support the differentiation of rates between Rural and Urban service areas. Furthermore, in Decision and Order G-196-22 (the COSA Proceeding), the Commission explicitly accepted the possibility of a rate differential between the utility's two service areas where such an outcome is supported by an approved COSA. Specifically, the Commission stated:

*The Panel observes that a possible outcome of the 2019 COSA is that Nelson Hydro's rates for Rural and Urban customers may differ in the future, whereas in the recent past these rates have been the same or have risen by the same proportion each year. This is not a consideration for the Panel. The BCUC has no jurisdiction over Nelson Hydro's Urban rates, which are excluded from regulation under the UCA, and Nelson Hydro is at liberty to set them at any level it chooses, whether or not those rates are sufficient to cover the cost of service to Urban customers.*

#### **COSTS AND BUDGET IMPACT - REVENUE GENERATION:**

The recommended 9.87% general rate increase will allow Nelson Hydro to meet its projected revenue requirement for 2023 for the Rural service area.

As mentioned above, the Commission has directed Nelson Hydro to utilize a 50-50 deemed debt to equity ratio for the purpose of calculating the utility's allowable return on Rural equity. As the utility has only approximately 15% debt, this results in a lower actual return. For 2023, the proposed rates would result in a return on equity of 7.45% whereas Nelson Hydro is entitled to a return of 9.25% (as approved by the Commission). Accordingly, while Nelson Hydro continues to under-recover from the Rural area in rates, the utility is seeking to address this matter through its Application for Reconsideration.

#### **IMPACT ON SUSTAINABILITY OBJECTIVES AND STAFF RESOURCES:**

N/A

#### **COMMUNICATION:**

Nelson Hydro staff presented to Council in an open meeting with regard to recommended rate increases for both the Urban and Rural service areas on both September 23, 2022 and October 21, 2022. Additionally, an Open House was held on September 29, 2022 at the Nelson Innovation Centre to allow customers and residents to engage directly with Nelson Hydro and ask questions about the plans and budget.

On December 1, 2022 Nelson Hydro will hold its Annual Open House at the Nelson Innovation Centre. Nelson Hydro staff will present with regard to a number of topics including the annual general rate increase and the reasons for the increase that is being proposed. Those in attendance will have the opportunity to ask questions of staff.

Once the rate increase has been adopted by Council, and prior to January 1, 2023 there will be announcements in the local media, City Facebook page and City website of the general rate increase.

#### **OPTIONS AND ALTERNATIVES:**

1. Pass first three readings of the bylaw amendment

2. Do not pass first three readings of the bylaw amendment

**ATTACHMENTS:**

- Hydro Services Bylaw (Rural Rates) Amendment No. 3559, 2022

**RECOMMENDATION:**

That Council pass the following resolutions:

1. THAT the "Corporation of the City of Nelson Hydro Services Bylaw (Rural Rates) Amendment No. 3559, 2022" be read a first and second time by title only.
2. THAT the "Corporation of the City of Nelson Hydro Services Bylaw (Rural Rates) Amendment No. 3559, 2022" be read a third time by title only.

**AUTHOR:**



NELSON HYDRO GENERAL MANAGER

**REVIEWED BY:**



CITY MANAGER

# THE CORPORATION OF THE CITY OF NELSON

## BYLAW NO. 3559

### A BYLAW TO AMEND “THE CORPORATION OF THE CITY OF NELSON HYDRO SERVICES BYLAW NO. 3196, 2012”

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**WHEREAS** it is deemed necessary to amend “The Corporation of the City of Nelson Hydro Services Bylaw No. 3196, 2012” to increase rates to cover the Non-Municipal (Rural) costs of operating the City of Nelson’s electrical utility;

**NOW THEREFORE** the Council of the Corporation of the City of Nelson, in open meeting assembled, enacts as follows:

1. That the said Bylaw be amended by deleting in its entirety Schedule “F” – Non-Municipal Service Description and Rates and replacing it with the attached Schedule “F” – Non-Municipal Service Description and Rates.
2. This Bylaw shall receive the approval of the British Columbia Utilities Commission prior to adoption.
3. This Bylaw may be cited as the “**Corporation of the City of Nelson Hydro Services Bylaw (Rural Rates) Amendment No. 3559, 2022.**”
4. This Bylaw shall come into force and effect on January 1, 2023.

READ A FIRST TIME the \_\_\_\_th day of November, 2022  
READ A SECOND TIME the \_\_\_\_th day of November, 2022  
READ A THIRD TIME the \_\_\_\_th day of November, 2022

RECEIVED interim approval of the British Columbia Utilities Commission on  
The \_\_\_\_th day of November, 2022 per Order No. \_\_\_\_\_

FINALLY PASSED AND ADOPTED the \_\_\_\_th day of December, 2022.

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Corporate Officer

**SCHEDULE "F"**  
**NON-MUNICIPAL SERVICE DESCRIPTIONS AND RATES**

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RATE    A-3    Residential Service Rates - Rural

Applicable to Rural Customers  
Applicable to residential or domestic use  
Applicable to common residential use  
Applicable to domestic water systems with Connected Load  
of 5HP or less

Rate:

Energy Charge

Period:                      Bi-Monthly  
Basic Charge:            \$18.88                      per            Period  
All kWh per Period: \$0.1223                      per            kWh

Demand Charge

First 20kW:                      nil  
Each Additional kW per Period: \$8.57                      per                      kW

Minimum Charge

The minimum charge per period shall be \$ 18.88

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Order No.:  
Effective Date:

Issued by: The Corporation of the City of Nelson  
Accepted for Filing:

Commission Secretary:

**SCHEDULE "F"**  
**NON-MUNICIPAL SERVICE DESCRIPTIONS AND RATES**

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RATE    B-4        Commercial Service Rates - Rural

Applicable to Rural Customers  
Applicable to small non-residential Customers of loads up to 25 KVA where  
no Demand Meter is installed

Rate:

Energy Charge

Period:                      Bi-Monthly  
Basic Charge:        \$44.59                      per    Period  
All kWh per Period: \$0.1436                      per    kWh

Minimum Charge

The minimum charge per period shall be \$ 44.59

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**SCHEDULE "F"**  
**NON-MUNICIPAL SERVICE DESCRIPTIONS AND RATES**

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RATE    C-4    General Service Rates - Rural

Rate:            Energy Charge  
Period:            Monthly  
Basic Charge:    \$44.59            per            Period  
First 15,000 kWh: \$0.1287    per            kWh  
Additional kWh over 15,000: \$0.1287    per            kWh

Demand Charge  
Demand above 25 kVA            \$9.44            per            kVA

Minimum Charge  
The minimum charge per period shall be the greater of:  
a)                    \$44.59            per Period, or  
b) the Demand Charge

Billing Demand  
The greatest of:  
a) The maximum Demand in KVA the current billing month, or  
b) Seventy-five percent (75%) of the maximum Demand in KVA registered during the months in the previous eleven month period

Discounts  
a) If service under this rate is metered at Primary Voltage, a metering discount of 1.5% shall apply.  
b) If the Customer supplies the necessary step-down transformers and transmission line Voltage protective equipment and installs the same on his Premises, a further discount of    \$0.7333 per KVA of Billing Demand shall apply.

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**SCHEDULE "F"**  
**NON-MUNICIPAL SERVICE DESCRIPTIONS AND RATES**

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RATE    F-2    Commercial Flat Service Rates - Rural

Applicable to Rural Customers  
Applicable to Commercial Utilities with usage of energy estimated to be  
less than 400 kWh per Billing Period

Rate:                    Energy Charge  
Period:                    Bi-Monthly  
Basic Charge:            \$72.31            per    Period

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