

Nelson Hydro Budget Preview & 2023 Rate Application

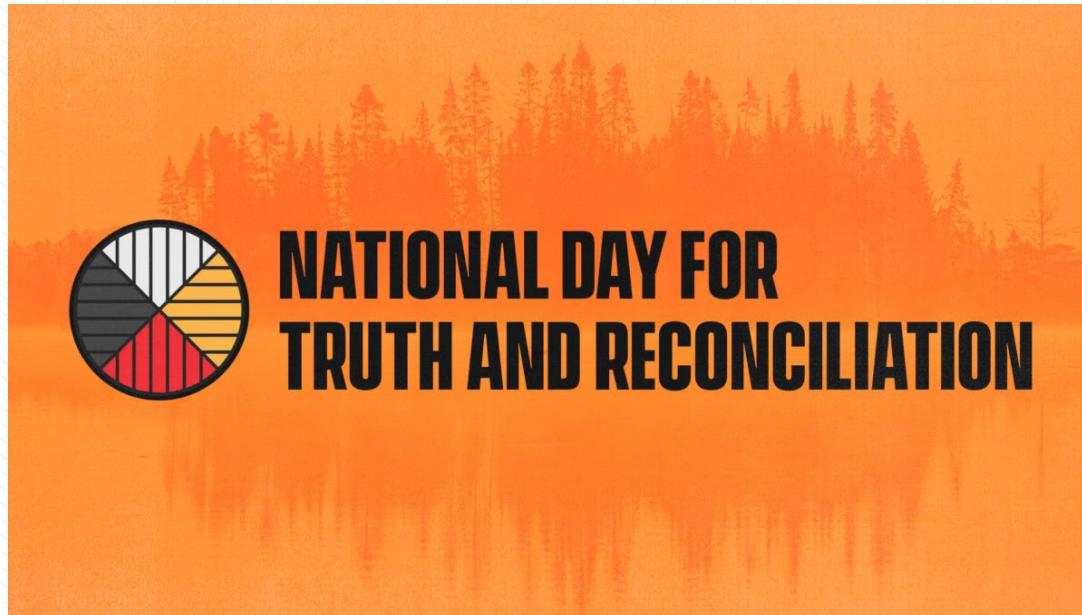
Presentation to Nelson City Council



September 23, 2022

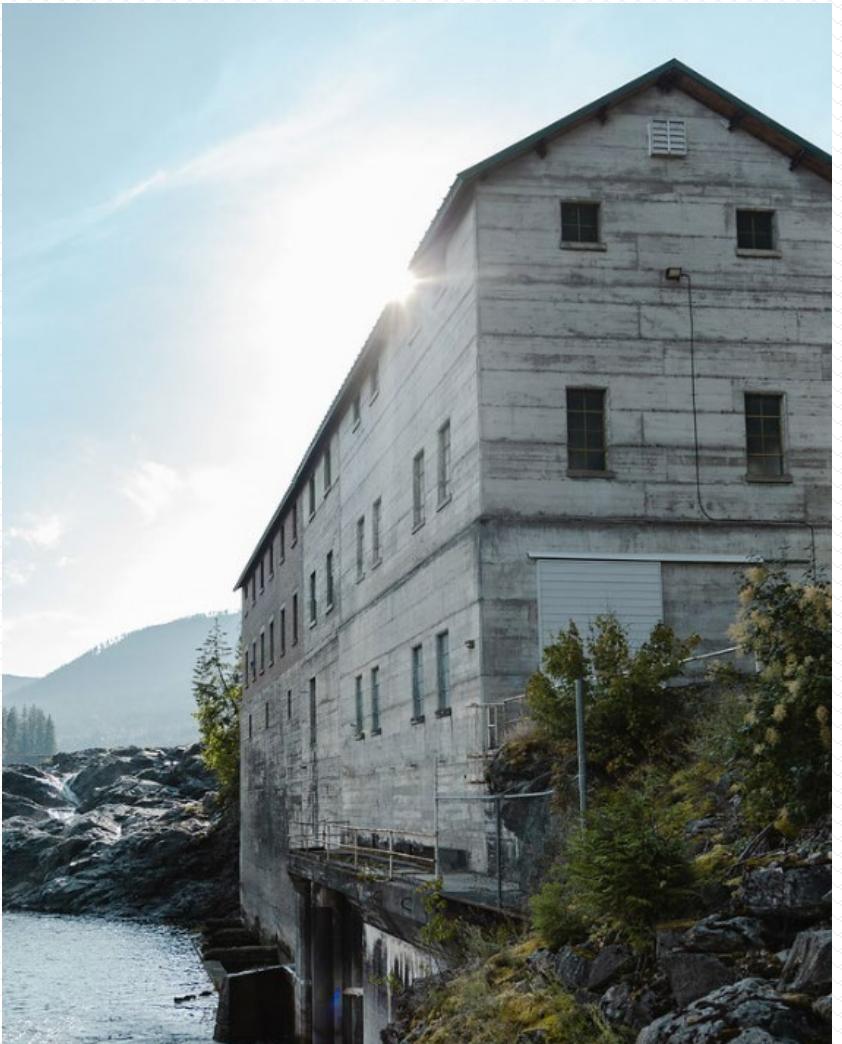
Aboriginal Acknowledgement

We would like to acknowledge that the land on which we gather is the traditional territory of the Ktunaxa, the Syilx, and the Sinixt peoples and is home to the Métis and many diverse Aboriginal persons. We honour their connection to the land and rivers and respect the importance of the environment to our strength as a community.



Agenda

1. 2019 Modified COSA Submission
2. 2023 Revenue Requirements Application
3. Budget Preparation
 - 2022 Operations and Capital Highlights
 - 2022 Operations and Capital Expense Forecast
 - 2023 Operations and Capital Plan Highlights
 - 2023 Operations and Capital Budget
4. 2023 Revenue Requirements
5. Nelson Hydro Recommendations



2019 Modified COSA Submission

- On July 19, 2022 BCUC Approved the 2019 COSA on the condition it be recalculated as directed
- Most of the 16 directives were minor with little impact except the following:
 - Directive #2 – Allocation of all generation assets and costs to Common instead of by Council Policy
 - Directive #3 – Allocation of all power purchase costs to Common instead of by Council Policy
 - Directive # 16 – Recalculate using a deemed capital structure of 50% / 50% debt to equity vs Actual of 14% / 86%
- Several factual errors were identified in the BCUC decision and Nelson Hydro has preserved the right to appeal
- Nelson Hydro filed the modified COSA as directed on September 16, 2022 along with two alternative models:
 - Allocation of 100% of power purchases from the Coffee Creek substation as this point of interconnection serves only Rural
 - Modified COSA calculated using the actual debt to equity ratio as originally directed by the BCUC in 2017



2019 Modified COSA

	2019 Actual Revenue	2019 COS As Filed	RCC Ratio	2019 COS Update - Base Case	RCC Ratio	2019 COS Update - PP by load profile	RCC Ratio	2019 COS Update - PP by load profile and Debt ratio as filed	RCC Ratio
	\$000	\$000	%	\$000	%	\$000	%	\$000	%
Residential - Rural	\$6,476	\$8,056	80.4%	\$6,665	97.2%	\$6,897	93.9%	\$7,140	90.7%
Commercial - Rural	\$1,083	\$995	108.8%	\$846	128.0%	\$880	123.0%	\$910	119.0%
Streetlight - Rural	\$33	\$37	89.4%	\$33	99.5%	\$34	97.0%	\$36	93.4%
Total Rural	\$7,592	\$9,089	83.5%	\$7,545	100.6%	\$7,811	97.2%	\$8,085	93.9%

- In all cases, Rural Residential is underpaying and Rural Commercial is overpaying
- BCUC has not approved the modified COSA or the alternatives provided by Nelson Hydro
- Not expecting to hear back prior to submission of the 2023 revenue requirements

Rural Rate Adjustment Consideration

As part of the COSA decision, the BCUC also stipulated the following:

- The panel has made no directive on rural rates and will not until it has reviewed the modified COSA
- The Modified 2019 COSA is to be used as the basis for its subsequent revenue requirements applications
- The panel had concerns about the phased approach to rate increases as it does not support a fair return for Nelson Hydro
- Rate adjustments resultant from the COSA shall be made on a prospective basis
- Rate adjustments resultant from the COSA shall align with revenue requirement proceedings that are to take effect on January 1 annually



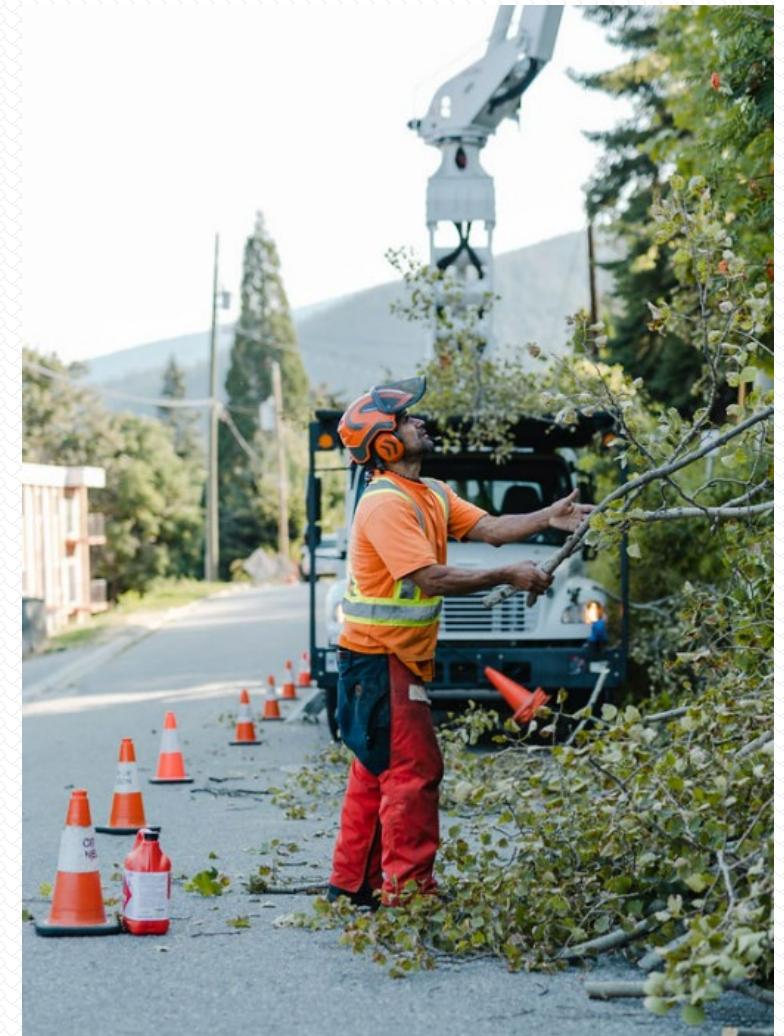
2023 Revenue Requirements Application

- On July 19, 2022 BCUC Approved the 2022 General Rate Application of 2.5%
- The decision also included a directive to file an update on its improvements to system reliability
- The 2021 decision stipulated that future revenue requirement applications take effect on January 1st annually. This results in a requirement to file by the end of October annually
- The 2023 Revenue Requirements application is in progress with the target of 28 October submission
- Like last year, there is uncertainty in the 2022 year-end forecast this far in advance
- Rate calculations are more complicated using the Modified COSA with prospective data
- BCUC has not approved the modified COSA proposed so it is unclear which model to use for the rate calculations



2022 Operations and Maintenance Highlights

- Improved reliability
 - Vegetation management on track to complete all prescribed areas
 - Fewer tree/wind outages - only one minor storm to date in 2022
 - Fire hazard low enough to keep reclosers on throughout the summer
 - FortisBC has made significant reliability improvements due in part to Joint Reliability Improvement Committee
- Reduced regulatory burden allowed focus on operational improvements in asset management, safety and productivity
- Safety program audits identified gaps in processes
- Implementing Permit to Practice Management Plan
- Material delays and supply chain issues impacting operations



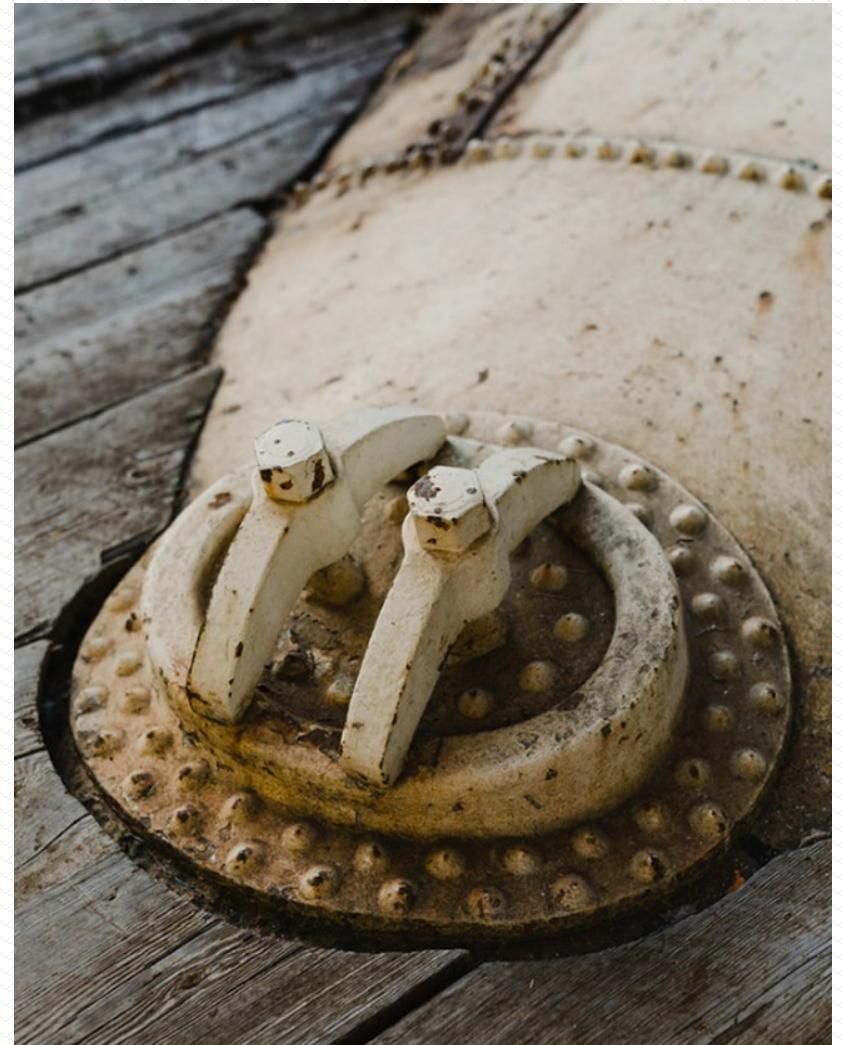
2022 Capital Highlights

- G5 Turbine Major Overhaul
 - Turbine disassembly in progress
- Mill St Substation Upgrade Project
 - New transformers on order, old ones removed and engineering in progress
- North Shore Pole Replacement
 - Scheduled for October 2022
- Power Plant Back-up Generator
 - Generator in place. Connection and commission in parallel with G5 Overhaul
- Vault Lid Replacement
 - Completed. Safety hazard eliminated



2022 Strategic Capital

- Advanced Metering Infrastructure (AMI) Project
 - Scoping and business case in progress
- Asset Management
 - Policy in place and \$60,000 in grants received (FCM & IPG)
 - Asset condition assessed and management plans developed
 - Software selection in progress
- Geographic Information System (GIS)
 - Scoping and business case in progress
- Battery Energy Storage Project
 - Application for ICIP / CleanBC grant submitted



2022 Operating Budget Highlights

	2022 Budget	2022 YE Fcst.	Forecast / Budget
Revenue Rates	\$20,305,650	\$20,420,795	101%
Revenue Other	\$474,600	\$512,800	108%
Total Revenue	\$20,780,250	\$20,933,595	101%
Power Purchases	-\$7,288,808	-\$7,392,722	101%
Operating Expenses	-\$7,812,333	-\$7,526,730	96%
Dividend / Return	-\$2,936,100	-\$2,936,100	100%
Available for Capital	\$2,743,009	\$3,078,043	112%
Capital Expenditures	-\$4,334,524	-\$3,973,624	92%
Impact on Capital Reserve	-\$1,591,515	-\$895,581	56%



2023 Operating Budget Highlights

- 3.99% Fortis BC Rate increase on purchased power
- Inflationary increases forecast to be greater than 5%
- Continued focus on reliability including vegetation management
- Address gaps in safety program processes
 - Development of City wide Electrical Safety Program
 - Changes to System Safety and Lock-out Program
 - Establish a training matrix using BIS Software
- Restructure line department and add 6th Power Line Technician
- Addition of Junior Engineer to support PPMP, Design Team, projects and succession planning



2023 Capital Highlights

- Mill St Substation Upgrade Project
 - Civil work starts in April and transformers arrive in October 2023
- North Shore Pole Replacement
 - Will continue this critical work following test and treat
- G3 & G4 Excitation System Replacement
 - Procurement and supply chain issues pushed delivery into 2023
- Dam Safety Projects
 - Still to be identified by the Dam Safety Review that is in progress. Expecting the province will direct us to resolve issues raised.



2023 Strategic Capital

- Asset Management
 - Software purchase and implementation
- Advanced Metering Infrastructure (AMI) Project
 - Supporting infrastructure and software upgrades
- Digital Mimic
 - Implementation of a graphical information system (GIS) to manage System Safety and Lock-out Program
- Battery Energy Storage Project
 - Grant award expected in September 2023
 - If not successful, refocus on either Coffee Creek transformer or new FortisBC intertie at 6-Mile



2023 Operating & Capital Budget Summary

2023 Operating and Capital Expense Budget Summary

	2022 YE Fcst.	2023 Budget	2022 Fcst. Vs 2023 Budg.
Power Purchases	-\$7,392,722	-\$7,724,146	104%
Operating Expenses	-\$7,526,730	-\$7,998,352	106%
Capital Expenditures	-\$3,973,624	-\$4,996,700	126%

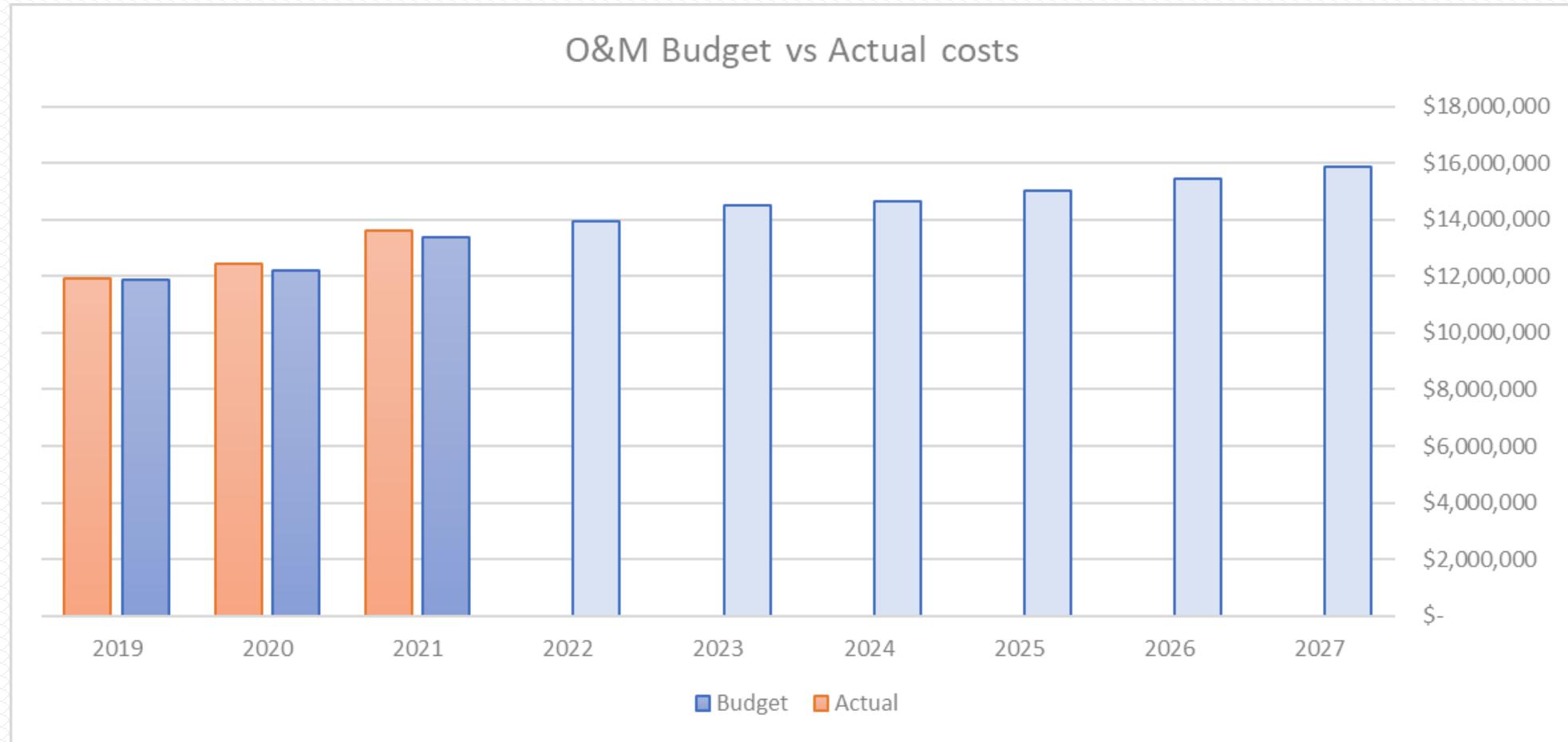
2023 Capital Expenses - Significant Projects

	2023 Budget Expenses	Total Project Expenses
AMI Meter Upgrade	\$1,000,000	\$3,300,000
Mill St Substation	\$2,000,000	\$3,800,000
Total 2023 Capital Budget	\$4,996,700	

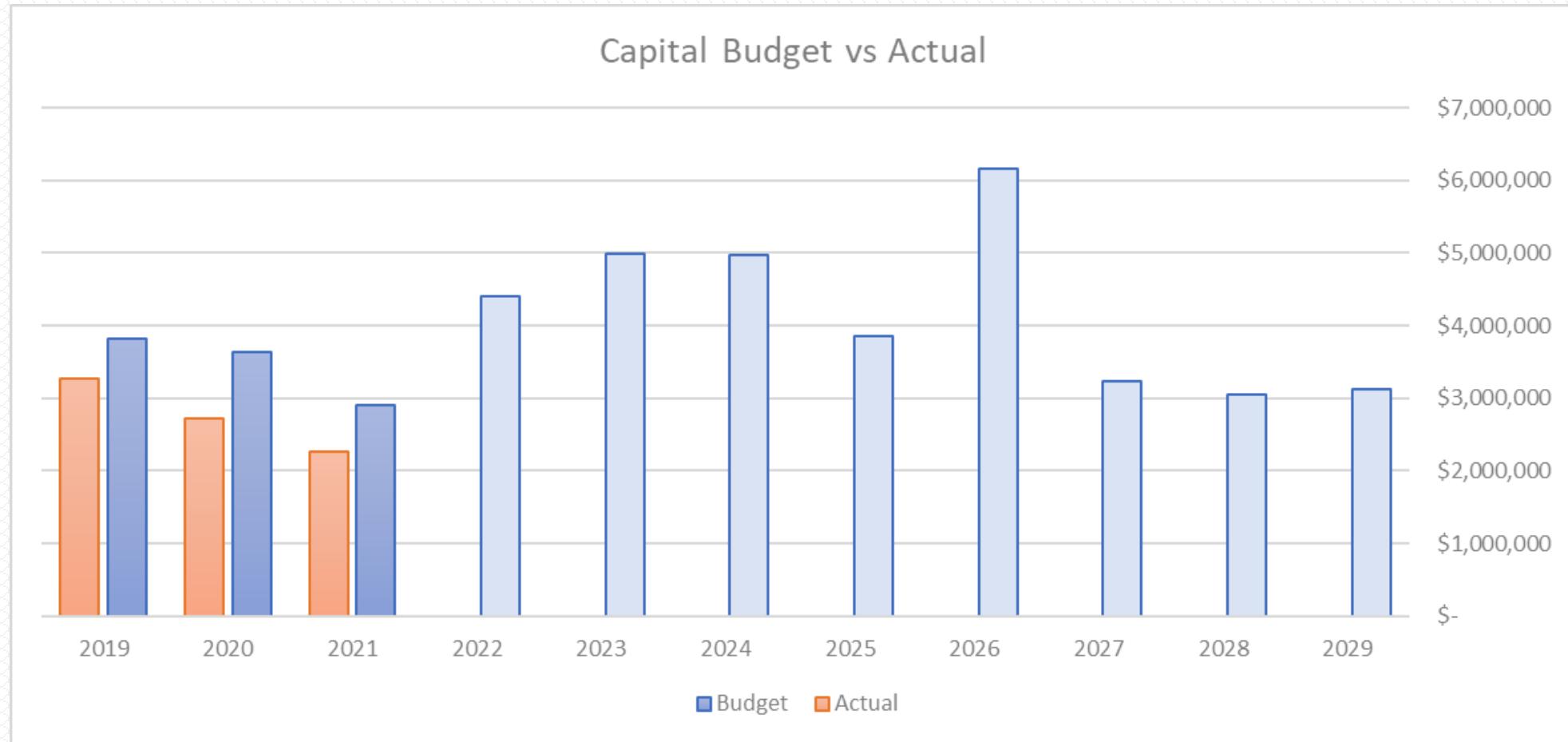
*net of insurance recoveries



Operating Budget vs Actual

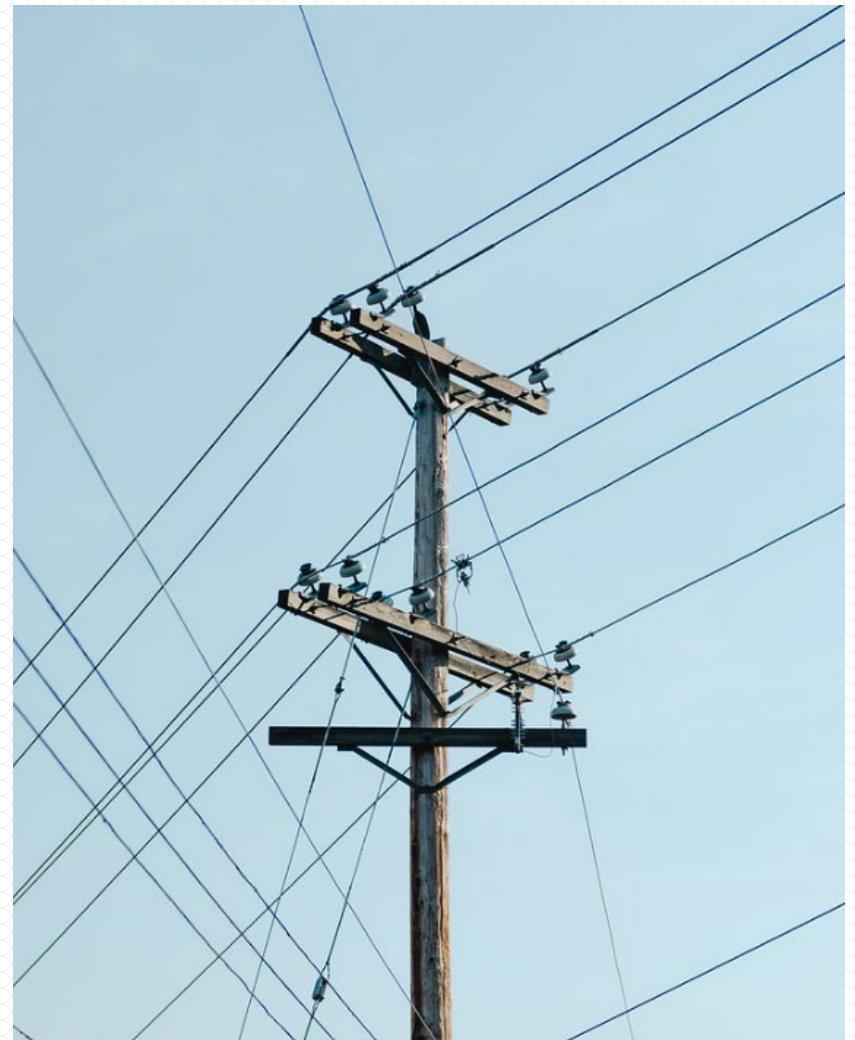


Capital Budget vs Actual



2023 Revenue Requirements

- Revenue required to meet operations and capital forecast expenses
- Traditionally managed capital reserve to determine rates
- Rural rates will be based on output from the modified COSA
- Urban rates will also be based on output from the modified COSA but will also consider revenue required to maintain a healthy capital reserve
- Increasing debt to align with BCUC deemed debt to equity ratio will impact revenue requirements
- Intergroup still working on prospective calculations using the modified COSA models



Nelson Hydro Recommendations

- Support the 2023 Operations and Capital Budget
- Support the establishment of a “Storm Expense Reserve”
- Support application for debt for rural capital projects
- Move the Budget Presentation later in October to allow time for resolution of outstanding issues around rate design



Questions?

Scott Spencer
General Manager, Nelson Hydro

sspencer@nelson.ca

Phone: (250) 352-8212

Cell: (250) 551-4512

