

# Nova Scotia Utility and Review Board

IN THE MATTER OF The *Public Utilities Act*, R.S.N.S., 1989, c. 380, as  
amended

- and -

IN THE MATTER OF an Application by Nova Scotia Power Incorporated for  
approval of a Load Retention Rate

**Supplementary Evidence: M. E. Whalen**

**DATED: January 11, 2000**

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### SUPPLEMENTARY EVIDENCE OF M. E. WHALEN

1 Q. Mr. Whalen, have you reviewed the evidence submitted by Mr. Kumar, of Economic and  
2 Technical Consultants on behalf of the UARB?

3 A. Yes, I have.

4 Q. Are there issues which you wish to address?

5 A. Yes. There are three areas in particular that I wish to comment on. These are:

- 6 - The comparisons of marginal cost with revenues received from large customers.
- 7 - A possible misunderstanding with respect to the impacts of gas in NSPI's load  
8 forecast.
- 9 - Conditions that Mr. Kumar suggests should be added to the load retention rate.

10 Q. Would you address the marginal cost vs. large customer revenue issue?

1 A. On pages 6 and seven 7 of his evidence, Mr. Kumar compares NSPI's marginal cost with  
2 revenues received from large customers. He notes that marginal costs are higher than the  
3 revenues received and suggests that "lower rates would result in further losses."

4 Q. Is the conclusion valid?

5 A. No, it is not. The majority of NSPI rates are designed to recover embedded rather than  
6 marginal costs and are approved by the UARB on that basis. The comparison of revenues  
7 resulting from these rates to marginal costs is not a meaningful comparison in terms of  
8 evaluating whether NSPI is incurring "losses." This is because embedded costs reflect  
9 average costs, while marginal costs are the cost of supplying the next increment of load.  
10 Marginal costs in any hour can be above or below average costs.

11 Q. What is the issue with respect to the impacts of gas in NSPI's load forecast?

12 A. Mr. Kumar seems to suggest on page 10 of his evidence that NSPI's load forecast may not  
13 include the impacts of natural gas. In fact, those impacts are included in the forecast  
14 presented in response to UARB-IR-7, and will be included in any forecast used to evaluate  
15 load retention rates.

16 Q. What comments do you wish to make on the conditions that Mr. Kumar suggests should be  
17 added to the rate?

18 A. Mr. Kumar suggests, on page 20 of his evidence, eight conditions that should be added to the

1 load retention rate. NSPI has concerns with a number of these conditions, including but not  
2 limited to Conditions 2, 3, 6 and 8.

3 Condition 2 would make the rate available “at the time the customer can possibly install its  
4 own generator.” NSPI agrees that the in-service date of the customer’s generation must be  
5 a factor in the determination of the load retention rate. However, there may be circumstances  
6 where it is appropriate to permit some of the benefits of the load retention rate to be realized  
7 prior to that in-service date. NSPI would prefer to have the flexibility to address this in the  
8 negotiation phase of the rate, rather than make it a condition of the rate.

9 Condition 3 suggests that the term of the rate should not extend beyond the point where NSPI  
10 requires new capacity. While NSPI would accept this as a starting point in negotiation with  
11 a particular customer, it must be noted that a self-generation option can provide the customer  
12 with a long term option, and if the load retention rate cannot offer a similar alternative, it may  
13 not be attractive to the customer.

14 Condition 6 would specify that the “rate should be at least equal to 10% of the higher of  
15 NSPI’s short term or long term marginal costs.” We assume that this means 10% above  
16 either of those. While NSPI agrees with the principle here, we believe that this is adequately  
17 addressed by the requirements of Availability Clause (1). The addition of this condition  
18 could, in some instances, present an unnecessary complication, particularly where the rate  
19 may be formula driven.

20 With respect to Condition 8, NSPI’s position is presented in response to interrogatory

1           SEMPRA-IR-13 (5).

2    Q.    Are there other comments you wish to make?

3    A.    Yes. The purpose of the load retention rate is to retain customer load, subject to the  
4           fundamental principles of Availability Clause (1) and final approval of the UARB. The  
5           addition of other conditions reduces the flexibility of the rate. In the final analysis, if the rate  
6           cannot meet the specific needs and circumstances of individual customers, it will not be a  
7           successful rate.

8    Q.    Does this conclude your supplementary evidence?

9    A.    Yes, it does.