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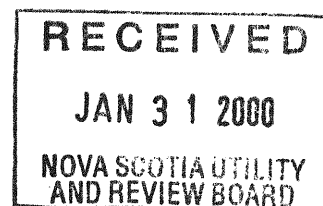
NOVA SCOTIA UTILITY AND REVIEW BOARD

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

Summation by Donald Regan
on behalf of
The Nova Scotia Municipal Electric Utilities Cooperative



Overview:

In the application before the Board, Mr. Whalen's pre-filed evidence describes a scenario in which 20% of large industrial load leaves NSPI's system. His scenario assumes fixed costs do not change, and other customers would have an obligation to replace the contribution to fixed costs once made by the departed load. It is ludicrous to suggest that a generating utility which has lost 20% of its load would take no mitigating action other than to commence a rate case to recover lost revenues from its other customers. Surely all reasonable measures, including mothballing or selling generation, should and would be taken first. In the second half of Mr. Whalen's scenario, a discounted rate retains the customer – "for the benefit of other customers"- and the revenue loss these other customers must replace is much smaller.

NSPI presented no documented evidence that other customers will be worse off if load leaves and all possible economies are taken to reduce fixed costs than they would be subsidizing a discounted Load Retention rate. It may be so, but it is not axiomatic. What is perhaps axiomatic is that writing off or mothballing generation reduces rate base and shareholders equity, the bases of approved return in the Board's 1996 decision. If the Load Retention rate defends equity, then clearly this is to the benefit of shareholders, not ratepayers, and it is shareholders who should bear the risk.

The test referred to in the preceding paragraph – how are the other customers best served – appears to be contemplated in section (10) of Attachment A to the proposed rate. This is envisioned to be a closed process, and we will have no opportunity to judge the appropriateness and completeness of the modelling or to propose other mitigations. Here we would have NSPI – hardly a disinterested party – determining if a load retention rate is justified free of scrutiny or challenge. In the process described in Schedule A, this determination will be made prior to involvement of the Board. I believe it is reasonable to expect NSPI

to defend shareholder interest before ratepayer interest, particularly if there is no one else in the room.

Confidentiality:

The cover of confidentiality sought by NSPI in this application is very broad and very unacceptable. NSPI seeks to compete with alternate energy sources where those sources can successfully compete with NSPI tariffs. It does not seek open competition. Yet the utility would have its competitive business supported by its regulated business - part of the fixed costs to be discounted to successful Load Retention candidates is return on equity and those customers remaining on cost based regulated rates are expected by NSPI to cover revenue deficiency.

At minimum, for other customers to successfully represent their interests at future rate hearings, the rates and terms negotiated, and the volumes sold under discounted rates must be known to other customers.

Responsibility:

Where a utility enjoys monopoly and cost based fixed rates, it is incumbent upon the utility and the Regulator to ensure fairness and the perception of fairness in the rate making process. This requires maximum transparency. If transparency must be compromised, then vigorous, confidential review by the Regulator or its expert consultants is essential. This review must include verification of the Business case for alternate supply, and verification that load retention is the best option for captive customers.

There should be a cost allocation regime that reports on each rate or rider of a rate as a separate rate class and includes the responsibility of each rate class for both fixed and variable costs. All factors of energy and demand, generation plant, transmission and distribution plant, maintenance and return on equity should be allocated. Revenue/cost ratios for all classes would then show the true degree of

subsidization, and which classes benefit. If it is true that the proposed rate will benefit all customers, we should know exactly the benefit we purchase with our subsidy. Perhaps we would not choose the bargain. Certainly we are entitled to know what we are buying, at what cost.

Basically, NSPI asks for freedom to compete only where its monopoly on generation can no longer be maintained. This competition is to be supported if necessary by those customers who do not have options for supply of electricity. It is possible but undemonstrated that these captive customers paying regulated, cost-based rates including return on equity as a component of cost will benefit from retaining load on the system. It is certain that NSPI's shareholders will benefit as long as regulation endures – the rate defends their equity.

Where NSPI wishes to engage in competition, it does so because that is best for its shareholders. Other ratepayers are not making this business decision, and should not bear the risk. The shareholders of NSPI or their nominees make that choice, and should bear that responsibility.

Environmental Issue:

To the extent that this rate delays the transition from coal or oil fired thermal to gas fired thermal generation, it delays an important environmental benefit. The cost of such delay is difficult to quantify. It is none the less real, and it is borne by everyone. The benefit of this delay flows chiefly to NSP Holdings.

Conclusions:

We conclude that the proposed rate defends the interest of NSPI shareholders in maintaining equity. This is certainly not a bad thing, simply a thing that other customers should not bear the risk of. No one owns stock in NSPI or NSP Holdings that was purchased prior to the summer of 1992. At that time, change in the industry was commencing, and the rumours of change impending were fairly

widespread. It was known or knowable that the nature of utility investment was not what it was 20 or even 10 years earlier.

The present shareholders chose to invest in this utility as a private company, and it is they who should support the potential revenue losses from discounted rates.

Recommendations:

- Generally, we find Mr. Kumar's testimony persuasive and support his recommendations.
- The Board should direct NSPI to file evidence detailing scenarios where customers able to successfully build co-gen plants do so and NSPI takes all reasonable measures to limit losses to shareholders and costs to other customers.
- Revenue losses should not be recoverable from other customers.
- Prices, terms, and volumes of discounted sales should be published.
- In future rate cases by NSPI, all rate groups and riders including interruptible, industrial expansion, surplus power, T.O.D. interruptible, and GRLF should be allocated costs, and revenue/cost ratios be calculated for each.
- All elements of each application for this Load Retention Rate should be scrutinized by the Board or its confidential consultant to ensure: (a) the business case for building co-gen has been rigorously tested and is credible; (b) that NSPI has thoroughly analyzed other scenarios to establish there is no offsetting reduction in fixed cost or revenue opportunity available; and, (c) offering a discount to the customer is in fact better for other customers than losing the load.