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Nova Scotia Utility and Review Board

RE: An Application by Nova Scotia Power Incorporated for Approval of Certain Revisions to its Rates, Charges and Regulations.

Nova Scotia Power Incorporated is a public utility subject to regulation by the Public Utility and Review Board. That regulation must be in the public interest and to a lesser extent, in the interest of the shareholder of NSPI.. The application speaks at length about the interest of a fair rate of return of shareholders when indeed there is only one shareholder, that being Emera. The application really deals with what is deemed good for Emera and in many respects, that is cold comfort to the public interest.

There are two aspects to the application the Board has been asked to consider. One is the high cost of fuel tied to increased volumes and the other is a recovery of expenses. Since the Board has dealt with the issue of recovery of expenses, I shall limit my arguments to the issue of high fuel price and increased volumes tied to it.

My first observation is that NSPI has an intensive capitol interest in generation, transmission and distribution. Therefore it would behove one to suggest there should be no mechanism whereby NSPI could not recover increased costs.

However, if increased costs were brought on by any failure of NSPI, then it would be irrational to allow tariff increases to meet those increases. More to the point, it would be tantamount to saying The Board gives in to NSPI and allows the utility to operate, as it will.

NSPI, on page 2, at line 11 of the introduction, says it faces higher costs for fuel. Yet the reality is that fuel prices (cost per barrel) have declined by 12 - 16% since mid summer 2006. ($78.00 to $60.00 dollars per barrel). The long-term forecasts by some are that the price might settle at about $58.00 dollars per barrel near the end of 2007. This prognosis has been in the public domain, yet there is no reference to such a possibility in the application. So it would seem prudent that the Board consider the possibility that prices might actually continue to decline and at the same time move to protect the interest of NSPI in the event that such relief does not occur. I would suggest that any rate increase consideration carry with it a cost of fuel pegged at March 2006, the time of the last rate increase. The rational is simple. NSPI says fuel prices will increase and I say they will not. No argument either for or against either case is going to be correct, as the arguments must be based on future events. One fact is that the Board has a history of grievous error in decision-making and I cite the decision of the Board to allow a rate increase in advance of a public hearing to the Facility Association in 2005. The decision in that case was not in favour of the public interest as the public was mandated to pay higher rates prior to any decision being rendered. In this case, the Board must be swayed in the interest of the

public and allow a rate increase based on higher fuel costs if indeed there are higher costs.

Further on page 2, at line 21 and 22, NSPI forecasts at 68.5 million dollars the amount of fuel increase over current rates. How is this possible if prices today are lower by as much as 16% and forecast to go even lower? The Board has before it a reasonable argument that fuel prices will be lower rather than higher because fuel price is going down, not up.

A close look at world consumption of fossil fuels and the generation of electric power might suggest fuel prices have peaked and that levels will be much more conducive to companies such as NSPI.. We have to accept that all countries of the world have learned people in responsible positions making decisions on electric power generation. It would be foolhardy to believe that fuel costs are to continue to spiral upward without a rational reaction to that happening. NSPI on page 2 of its introduction, at lines 14, 17-18 describes volatile global market conditions. On page 17, figure 2.3.2 gives a picture of global petroleum supply. On line 10 of the same page, NSPI tells us supply growth is expected to occur. On page 18, lines 4-5, we are told industry consensus is that world crude oil prices are expected to remain high.

The consensus is for prices remaining high but what is also being said is that there are varying opinions to that consensus and that oil prices might well fall depending to whom we talk.

The Danish Wind Energy Association, a world leader on what the wind industry is about, publishes very interesting data on wind energy. I will relate some valuable information from the 2006 annual report of that association. Denmark produces today, 11% of its energy from renewable sources. Their target for the year 2030 is 40%. Germany, some 82 million people, will produce 20% of its capacity from wind between 2015 – 2020.It has operational wind farms ranging from 12 to 80 turbines and operates 160 turbines in the Baltic Sea alone. A British Government report states wind energy production will be the cheapest form of production in Britain by 2020. Britain produces almost as much power from wind as Nova Scotia consumes today. Sweden has 30 off shore projects planned and approved.

The global production of power from the wind was 59,000Mw in 2005. Europe has 6,300Mw installed. Germany installed 1808Mw in 2005 alone. Spain has 10,000Mw installed. Portugal has 1000Mw installed. The USA has 5431Mw as of 2006 and will have 8500Mw by 2007. California produces 1700Mw, almost the Nova Scotia consumption. Texas produces 2625Mw and has 1146Mw in construction In Canada, Ontario has a 1000mw project being tendered, Quebec will produce 2000Mw between 2006 and 2013 and Prince Edward Island will have their peak load of 200Mw coming from wind. The most aggressive producer will be China. They had a production of 98Mw in 2003, 500Mw in 2005, have plans to produce 20,000Mw by 2010 and a staggering 30,000Mw by 2020. They have under construction a 1 million Kw wind plant to produce power for the 2008 Olympics alone. On the topic of China, it's put forward daily that China and its development will put pressure on world oil prices. Quite the opposite is

true. China has one of the most aggressive energy policies whereby the reliance on oil is secondary.

Global hydroelectric power generation is on the rise. The Swiss and New Zealand produce half their consumption from Hydro. The USA produces 95,000 Mw. Britain has 33 projects 20+ Mw, 53 plants of 1-9 Mw, 17 plants of 25Kw and numerous small projects operational. China produced 1,444 million KwHrs prior to 1996. They have added the "Three Gorges Project" producing 18 gig watts and are building several other projects.

The Chinese solution includes 9 operational nuclear plants producing 6988Mw and is constructing 2 more plants to add 2120 Mw of capacity. They have signed a contract to purchase five additional reactors from Westinghouse of the U.S.A. as of December 15/06.

The point is that the world recognizes the brutal harmful impact of high fossil fuel costs h on the world economy and the fossil fuel impact on the environment. The alternatives to fossil fuels above are by no means complete. There still is the potential of solar for instance, ethanol as a gasoline additive, fuel cells using Hydrogen .The reality is that world oil prices are going to be impacted more every day by alternatives and that NSPI is making no allowance for future oil prices and that reality in their application. They don't even talk about alternatives being developed. They would have the Board focus on high prices and demand.

The Utility and Review Board has an opportunity to move Nova Scotia away from fossil fuels and toward the alternative generation and it must do so. The two entities, Canada and Nova Scotia have a vested interest in maintaining high oil prices. There are no royalties in wind, solar or hydroelectric power because there are no inputs, which pay royalties. The common good as far as those Governments are concerned is a continued high oil price and royalties, which feed the till. NSPI will chart the course of least resistance and buy oil whatever the cost because they can ask for a rate adjustment at these hearings.

It is quite an easy argument to use scare tactics and say the industry consensus is that world crude oil prices are expected to remain high in the near- term reflecting increases in demand, limited spare production capacity, and the geopolitical tensions in major oil producing Countries. It is quite another matter to factor the dramatic and substantial change in world energy consumption and the volumes of that energy being produced by alternatives to fossil fuels. There is no mention of the Alberta Oil Sands which has developed technologies to produce oil at about $15.00 dollars per barrel and that the reserves there are larger than Saudi Arabia. There is no mention of the stability of that production.

The application and its supporting document are predicated to the continued reliance on high priced volatile fossil fuel procurement. That Government would allow electricity generators to export billions of dollars annually is unconscionable. Given alternatives

proven and available, the Board must consider the harmful effects of fossil fuels and the cost of exporting billions of dollars when deliberating this application.

Furthermore, the Board must accept the mantle " Steward of the environment" and be proactive in the global warming debate. The future generations, one two or three out, do not have a voice yet. They are the ones who will bear the brunt of today's mistakes and omissions and they are the ones the Board must adopt as their own.

NSPI on page 3 of the introduction, at line 12 –17 introduces the spectre of increased costs for both NSPI and its customers because of a credit rating downgrade. Energy Venture Analysis Inc. of Arlington, Virginia provided testimony in the rate application. At page 36, lines 12-13 they suggest NSPI 's own credit rating could affect the cost of it's own fuel procurement. Venture Analysis certainly stops well short of any inference whatsoever, that the NSPI credit rating has anything at all to do with its ability to procure fuel. The mere mention of an idea without supporting facts makes is simply a waste of paper.

The credit rating of NSPI was downgraded. There is no cost in the application associated with the downgrade. On page 51, a line 10 – 15, NSPI expects higher costs for lines of credit and prepayments. On the surface simply implying that there will be higher costs is true. NSPI cannot be faulted for telling the truth. In reality, where no lines of credit are used or prepayments required, there are no higher costs. NSPI in their application might have been expected to ask the Board to consider those higher costs and be accused of mismanagement for not including them. If there are no higher costs, then there is credence to putting no cost in the application. Further, the revenue requirement appendix A, PAGE 1, shows the cost of capitol to be 4.3 million dollars less in 2007 over 2006, notwithstanding the credit downgrade. That implies there is no cost to NSPI for the credit downgrade.

Working With Customers and Other Stakeholders

On page 4 of the introduction, line 13, the company suggests it must actively manage its costs. But stops short on what that means. They talk about rate of return, a fair rate of return, and a reliable, safe and cost effective system. On lines 19- 25, the company provides information to stakeholders but goes completely of course and says, "NSPI desires an application process that is efficient, collaborative and well managed." "keep the matters in issue realistic and focused" "keep the hearing productive and on topic". I know what I read. What I heard was for a restrictive, narrow, self-serving approach whereby stakeholders are unable to entangle NSPI in such messy cost factors as executive compensation, bonuses, pensions, sale of natural gas to Emera, the way NSPI earns it income, the cost benefits of Stora Enso being closed, the failure of NSPI to partner with its stakeholders, the lack of progress on alternative energy, the restrictive contracts proposed by NSPI to alternative energy producers, net metering, how energy is produced by outside interests, base rate and the list goes on.

It might be fair to say NSPI has done little in partnering with its stakeholders and customers in achieving a co-operative effort to reduce the effect of peak demand and high winter consumption. It's true that some effort has been made which certainly helps, but nothing on a large co-ordinated scale to teach it's customers the value of conservation, it's impact on fuel demand, impact on borrowing, impact on credit worthiness and impact on rates. NSPI as a single source monopoly has an obligation to do it's very best to be cost effective and fails miserably.

The Board has an opportunity with this application to start a process whereby the Company and the customers become partners in building the company. It is in the best interests of Nova Scotians to have a strong reliable company. The Board has in my opinion erred in allowing NSPI to charge a base rate and not providing a return. Nothing is more callous than having to pay after tax dollars for thin air. The base rate is perceived as a rip off because it is a cost without a benefit. It is simply handing over good money because it's on the bill. Can you imagine going to the supermarket and handing over ten dollars before you pay your grocery bill? It's ludicrous and its elimination ought be the first step in the building a relationship between NSPI and me.

The Board also has the opportunity to introduce conservation as a requirement and to set meaningful targets in conjunction with NSPI.

Requested Adjustment to Rates

Using NSPI data, their revenue increase request in total is made up of 75% of the total in higher fuel costs. The Board is being asked by this intervener to deny that 75% increase for fuel and allow the establishment of a fuel cost base pegged to the March 2006 world fossil fuel price. Further to that, to allow NSPI to adjust its rates in accordance with that base price. The outcome will be two fold. First, the Company will recover unusual spikes to its cost and customers will benefit on an ongoing basis for falling world fossil fuel prices.

However a caveat must be included in any agreement herewith. NSPI must be forced to invest in alternatives in a meaningful way and at a pace, which is fast tracked. The current NSPI regimen is restrictive, self serving and counter-productive to the interests of the population of Nova Scotia and to global warming. The mantra of electricity generators is the same one. NSPI has said it cannot move too quickly on wind generation, that wind generation is not reliable and that they will always require fossil fuel generation. The exact drivel came from electric generators in Michigan. The reality is that NSPI already has all the reserve generation capacity it needs and that alternative generation would mean coal generation can be stopped sooner rather than later.

None of the topics discussed here are unrealistic or off topic. Each point has been carefully considered, reflecting on information and ideas provided in the application.

I would make some general observations about the application. Being a layperson, some of the intricacies escape me.

I note that NSPI makes reference to the "net load increase" and pegs it at 1 percent. On page 8, lines 3-5. They say this puts a greater reliance on higher cost fuels such as oil and natural gas. The additional load adds 19.6 million dollars to cost. Presumably, that new load adds revenue, which is suspiciously absent in the discussion. One can only imagine that the increased cost/revenue balance is in the favour of NSPI and they generate a profit from the transactions. If increased loads mean NSPI actually loses money, then the Board has failed NSPI in the past or NSPI ought not be allowed operate and it should be sold. It's inconceivable that an ongoing business would use an argument of increased business as one of its rationales for a rate increase.

There is a mention of gas resale margin. The Board ought to take a careful look at what is happening here. On page 42, lines14-31 and page 42, lines1-2 a story unfolds. NSPI was instructed by the Board in the 2006 rate hearing to contract a third party to manage gas sales. Presumably the Board did this because of a perceived or real conflict with gas sales. Two flagrant omissions are apparent in the diatribe. First, there is no detail of the RFP (request for proposal) whereby anyone can say definitively the Boards wishes were adhered to. There is no analysis of the substantive content to assure a competitive bid. Secondly, there is no assurance that the process developed provided a competitive environment that was transparent and fair to all. There is no third party endorsement of the process outside the party Brant Energy, a vested interest being paid by NSPI.
The smell, which emanates from the winning bid determination, is all the more potent when Emera, the sole shareholder of NSPI becomes the winning bid. Again, as a lay person, one might think that if someone buys a product but does not actually have capability to use that product and indeed resells that product, then the entity which sold the product initially, sold it for less than its value. In this case, that is exactly what seems to have happened and would seem to be contrary to the wishes of the Board. It would seem contrary to the interests of the customers of NSPI as well. It would seem to be in the best interests of Emera though.

On page 52, lines17-19 NSPI talks of the gamble in fuel acquisition.. Swap and option contracts, hedges. Since the price of oil is falling, the logical conclusion a layperson such as myself would come to is those future deliveries ars already being hedged at the lower prices and that those lower prices have an impact on the swaps as well. One might even say that 2007-hedged deliveries will see prices at or near 2005 prices of $60.00 per barrel. One might reasonably argue NSPI has hedged at the lower prices of today and that the reality is that the application is motivated in profit Just a thought.

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On pages 59-60, NSPI introduces renewable energy as an afterthought, barely 18 lines devoted to the topic. The world is moving away from fossil fuels. The information and data available supports that fact. There simply is more alternative electricity production today than five years ago and certainly much more that ten years ago. NSPI does not get it and therefore its up to this Board to ensure there is a reasonable steady pace to

development of alternatives to fossil fuel generation. The fact NSPI has a huge capitol investment in current generation capacity needs to be a factor in any discussion. The capitol investment cannot be a reason for not considering alternatives. This Board must make it their business to partner with NSPI , the Government of Canada and the Government of Nova Scotia to achieve a more focused energy production policy based on alternatives to fossil fuel production. It is your responsibility.

I don't know how the counter-productive net metering policy currently being used by NSPI was developed. Other provinces have recognized a pro-active approach to power generation while Nova Scotia has one of the most backward policies in Canada. Currently, having enough generation capacity to produce one's own power means an investment in equipment capable of producing more power than needed. To maintain a grid hook-up to supply surplus power to NSPI has no merit. The first liability is that your power is interrupted when NSPI loses supply capability. Therefore a backup storage or generation system is required. But in Nova Scotia, if you have a backup system you can't hook to the grid. How asinine is that? Secondly, if you maintain a grid connection and generate surplus power for the year, the surplus is claimed by NSPI without compensation. Again in Nova Scotia, we have gone beyond reasonable and gotten to absolutely ridiculous. Finally, assuming one maintains a grid connection in a net – metering situation and does not use NSPI supply, one still gets to pay the base rate every month. There are three solid reasons not to entertain a grid tie to supply surplus power to NSPI which would be beneficial to NSPI. There is no rational reason for the insanity. What does it matter that I produce power from a backup system using the exact oil based fossil fuel NSPI uses?

In my personal situation, I have already purchased the first of four wind turbines, will be installing solar panels and will have a diesel generator as a backup supply source. I have started to build the storage capacity using a twenty-four volt storage system. I have purchased the switching equipment and electric hot water storage. The $7000.00 dollar system will pay its own way given my $1200.00 dollar annual electric bill. I have been forced to examine and adopt alternatives because of price. The world has been forced to examine and adopt alternatives because of price.

In summation, NSPI does not merit a rate increase for perceived future high fuel prices.

If they continue to ignore alternatives to fossil fuel power generation and this Board allows rates to skyrocket out of control two things will certainly happen. Individuals and business will move toward self generation sooner that later to the detriment of NSPI and NSPI will be hard pressed to stay in business. We only need to look at the example in West Royalty, PEI where a business is currently operating its own wind generator and a farm operation in Stewiacke. NS has adopted the same self generation philosophy.

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