P-886

EXHIBIT N-12

ORIGINAL

BEFORE THE

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 of Nova Scotia Power Incorporated for approval of certain revisions to its Rates, Charges, and Regulations

EVIDENCE FILED BY JOHN STUTZ

On behalf of:

The Utility and Review Board Staff

REDACTED

December 20, 2006

Tellus Institute
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RECEIVED
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Nova Scotia Utility
and Review Board

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1. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is John K. Stutz. My business address is the Tellus Institute (Tellus), 11 Arlington Street, Boston, Massachusetts 02116-3411. I am a vice president at Tellus.

Q. HAVE YOU PREPARED A SUMMARY OF YOUR BACKGROUND AND QUALIFICATIONS?

A. Yes, it is provided in Exhibit JS-1.

Q. WHAT IS THE PURPOSE OF YOUR EVIDENCE IN THIS PROCEEDING?

A. I am responding to the evidence presented to the Utility and Review Board (UARB or the Board) by Nova Scotia Power Incorporated (NSPI or the Company) and its witnesses, concerning NSPI's application for approval of revisions to its rates, charges and regulations. My evidence deals with four sets of issues: (1) an increase in required revenues; (2) anticipated changes in fuel-related costs that drive the increase; (3) NSPI's procedures for setting class revenue responsibility and its proposed changes in rates; and (4) a number of policy-related issues. Based on my evidence, I present a number of recommendations.

Q. HOW IS YOUR EVIDENCE ORGANIZED?

A. The next section presents a summary of my evidence and recommendations. My detailed evidence is presented in the following four sections, each of which addresses one of the sets of issues identified above.

Q. WHAT RATEMAKING PRINCIPLES ARE REFLECTED IN YOUR EVIDENCE?

A. Bonbright's *Criteria of a Sound Rate Structure*, reproduced in Exhibit JS-2, provide the appropriate general framework for ratemaking. In developing my evidence I have relied upon these criteria as guiding principles.

Q. HOW IS YOUR EVIDENCE RELATED TO THAT PRESENTED BY THE OTHER WITNESSES APPEARING ON BEHALF OF BOARD STAFF?

A. The witnesses from the Liberty Consulting Group (Liberty) appearing on behalf of Board Staff address fuel-related issues. My evidence provides background for their discussion and recommendations concerning test year costs. It also addresses the issue of ensuring representative costs for the years beyond 2007.

Q. IS THERE A POSSIBILITY THAT YOU WILL FILE SUPPLEMENTAL EVIDENCE?

A. Yes. As the Liberty witnesses explain in their evidence, they are awaiting information from NSPI. Depending on the nature of that information I may need to expand or revise my background discussion of fuel-related issues.

2. SUMMARY AND RECOMMENDATIONS

Q. **WHAT ARE THE KEY POINTS OF YOUR EVIDENCE?**

A. The key points are listed below. For convenience they are grouped to correspond to the four sections of my detailed evidence.

Required Revenues

- NSPI has proposed an increase of $82.8 million in required revenues. The increase is driven primarily by anticipated increases in fuel-related costs, but also by higher depreciation rates, recovery of deferred tax costs and greater pension expenses.
- As in 2005, deferring the phase-in of higher depreciation rates is reasonable and appropriate.

Fuel-Related Costs

- NSPI's anticipated test year fuel-related cost is far above the costs seen or expected through 2006.
- In the past, NSPI's estimates of test year fuel-related cost have generally been over-stated.
- In each of NSPI's last four rate applications, the percentage earned on gas sales has been substantially under-estimated.
- In its low case forecast of Net System Requirements, NSPI assumes that Stora will be shut down during 2007. Net of lost revenue, such a shut down would reduce NSPI's test year costs by roughly [redacted].

- Based on data through 2006, fuel-related costs above $33.86 per MWH are not representative of the costs likely to be incurred in 2008 and beyond.

Class Revenues and Rates

- NSPI's procedure for apportioning an increase among the ATL rate classes places too great a burden on the classes with R/C ratios below 100.
- NSPI's proposed true-up for Debits and Credits is inequitable. Its adoption would likely make ELI 2P-RTP, the ELIIR replacement based on Real Time Pricing, unworkable.

Policy Issues

- NSPI's proposal to recover costs beyond those identified, estimated and justified in its initial evidence is inappropriate and inequitable.
- The deferred recovery of fuel expenses requested by the Company lacks adequate support.
- Establishment of Standard Filing Requirements would improve the completeness and adequacy of the information included in future Company filings in a General Rate Proceeding.

Q. **WHAT ARE YOUR RECOMMENDATIONS?**

A. My recommendations are the following:

- The increase in depreciation rates should be deferred.

- If test-year, fuel-related costs greater than $33.86 per MWH are approved, a filing for a General Rate Proceeding should be required in 2007.
- NSPI's procedure for allocating increases among the ATL rates should be replaced by the procedure described in Section 5 of my evidence.
- The true-up proposed for Debits and Credits should be rejected.
- NSPI's proposals for recovery of additional costs and for deferred recovery of fuel costs should be rejected.
- Following this proceeding Staff should work with NSPI and other interested parties, to develop Standard Filing Requirements and submit them to the Board.

3. REQUIRED REVENUES

Q. PLEASE BRIEFLY DESCRIBE THE INCREASE PROPOSED BY THE COMPANY.

A. The increase proposed by the Company is based on a 2007 Test Year. For 2007 NSPI estimates that it would have revenues of $1,115.1 million at current rates. At its proposed rates this rises to $1,197.6, an increase of $82.5 million. The $82.5 million figure excludes an increase of $.3 million for the GRLF class. With this included, the total increase is $82.8 million.

Q. WHAT FACTORS DRIVE THE REQUESTED INCREASE IN RATES?

A. Increases in fuel-related costs, recovery of deferred taxes, changes related to depreciation, and higher pension expenses all contribute to the increase.

Q. DO YOU HAVE ANY COMMENTS CONCERNING THE FACTORS DRIVING NSPI'S PROPOSED INCREASE?

A. Yes, I have two comments:

- As in 2005, the scheduled increase in depreciation rates should be deferred.
- NSPI's anticipated fuel-related costs are likely over-stated.

The remainder of this section addresses my first comment. The second is the focus of the next section of my evidence.

Q. PLEASE EXPLAIN THE BASIS FOR YOUR RECOMMENDATION TO DEFER THE INCREASE IN DEPRECIATION RATES.

A. In its decision in the 2005 General Rate Proceeding dated March 31, 2005, the Board addressed increases in depreciation rates. The Board noted that NSPI is assured that the costs in question will be recovered. The issue, as the Board observed, is timing. The Board went on to direct the deferral of the scheduled depreciation rate increase in order to reduce test year expenses, and consequently rate increases. In its subsequent decision dated March 10, 2006, the Board did permit an increase in the depreciation rates. Through this action the Board indicated that, while increases in depreciation rates might be delayed, they would not be abandoned.

As in 2005, the decision whether to raise depreciation rates now or later is a matter of balance. In striking that balance the impact on NSPI's ratepayers needs to be considered. The increase proposed in this proceeding follows substantial increases in 2005 and 2006. In 2004, NSPI's total revenue was $934.9 million. The Company's proposal for 2007 would push that up to $1,197.6 million, an increase of $262.7 million in only 3 years. Most of this increase is due to higher rates, not sales growth. In 2004, NSPI's average revenue per MWH was $74.41. With the proposed increase this would rise to $91.71 in 2007. The additional $17.30 per MWH accounts for $225.9 million of the $262.7 increase in revenues.

In light of the fact that ratepayers are facing the third in a sequence of major annual increases, it is appropriate for the Board to defer additional burdens

when it can reasonably do so. Deferral of the depreciation rate increase is feasible and, on balance, appropriate.

Q. WHAT ABOUT THE IMPACT ON THE COMPANY'S COVERAGE RATIOS?

A. As NSPI's own evidence shows, the key coverage ratios will be at or above average historic levels in 2007 without any increase. Inclusion or exclusion of an additional $6 million from the depreciation rate increase will have only a marginal effect on the well over $300 million in Funds From Operations (FFO) on which the key ratios are based.

Q. DID YOU CONSIDER THE MESSAGE THAT DEFERRAL SENDS TO THE CAPITAL MARKETS?

A. Yes, I did. In considering that message I noted that the Final Issues List for this proceeding includes the following comment: "Please note it is not the Board's intention to re-visit the amount, amortization and start date of the Section 21 tax deferral or the Q1 2005 tax deferral." As this comment makes clear, this proceeding will provide significant recovery of previously deferred costs. And, as I noted earlier, the increase in the depreciation rates last year sends the message that increases in depreciation rates may be delayed but will not be abandoned. Taken as a whole, the message to the capital markets is one of balanced concern for shareholder and ratepayer interests.

4. FUEL-RELATED COSTS

Q. TO WHAT EXTENT DO FUEL-RELATED COSTS DRIVE NSPI'S PROPOSED INCREASE?

A. When discussing increases in costs and their impact on rates, NSPI generally compares compliance data for 2006 (2006 C) with forecast data for 2007 (2007 F). For 2006 C and 2007 F, the average fuel cost per MWH is $33.23 and $38.19, respectively. The increase in revenue required to cover the additional $4.96 per MWH in fuel-related costs in 2007 is $64.8 million. Thus, increases in fuel costs account for roughly 78 percent of the $82.8 million increase in revenues sought by the Company.

NSPI's use of 2006 C as a point of reference reflects the cost basis upon which the current rates were designed. NSPI's forecast of fuel-related costs for 2006 is far lower than the 2006 C data. Compared to the 2006 F data, NSPI's anticipated cost of $38.19 per MWH represents an increase of well over 40 percent.

Q. HOW DOES NSPI'S ANTICIPATED FUEL-RELATED COST FOR 2007 COMPARE TO THE ACTUAL COSTS SEEN IN PREVIOUS YEARS?

A. Exhibit JS-3 provides the data required to place NSPI's anticipated cost in historical perspective. The exhibit provides data for the years 1993 to 2005. The anticipated cost for 2007 is much higher than the actual cost in any of these years.

Q. IS THE DIFFERENCE BETWEEN THE ANTICIPATED COST FOR 2007 AND THE ACTUAL COSTS IN PREVIOUS YEARS SIGNIFICANT?

A. Yes. To determine whether the difference is significant one needs to consider the number of standard deviations by which the 2007 value exceeds the historic mean. One expects to find most values within two, or at most three standard deviations from the mean. A difference greater than three standard deviations is significant. As the data at the bottom of Exhibit JS-3 show, NSPI's anticipated value for 2007 exceeds the mean of the historical data by about seven standard deviations. Compared to the historic data, the anticipated value for 2007 is a clear outlier.

Q. IS THE ANTICIPATED VALUE FOR 2007 AN OUTLIER COMPARED TO RECENT DATA?

A. Yes. Exhibit JS-3 also shows that NSPI's anticipated cost for 2007 differs from the mean of the most recent years' data by about five standard deviations. Thus, even if one focuses on the most recent years—2001 to 2006—NSPI's anticipated value for 2007 remains an outlier.

Q. WHAT ISSUES ARE RAISED BY THE RESULTS PRESENTED IN EXHIBIT JS-3?

A. The results raise two important issues:

1. Is there reason to believe that NSPI's anticipated cost for 2007 is too high?

2. Are costs at or near the level anticipated by NSPI likely to be representative for 2008 and thereafter?

Below I will address each of these issues.

Q. IN THE PAST HAVE NSPI'S ESTIMATES OF TEST YEAR FUEL-RELATED COSTS PROVED TO BE TOO HIGH?

A. Yes. Between 2001 and 2005, NSPI filed four General Rate Applications. As the data in Exhibit JS-4 show, the estimates of test year fuel-related costs provided in all but one of those applications were too high.

Q. HAVE YOU FOUND ANY CONSISTENT ERRORS IN THE DEVELOPMENT OF NSPI'S TEST YEAR FUEL-RELATED COSTS?

A. Yes. In this regard, I would draw the Board's attention to the percentage that NSPI earns on the resale of natural gas. As the data in Exhibit JS-5 show, NSPI substantially under-estimated that percentage in all four of the applications mentioned above. All else equal, an under-estimate of the percentage will produce an over-estimate of fuel-related costs. Based on the cost of gas NSPI anticipates selling in 2007, under-estimates of the magnitude shown in Exhibit JS-5 would produce over-estimates of fuel-related costs of roughly $16 to $53 million.

Q. HAVE YOU IDENTIFIED ANY OTHER FACTORS WHICH COULD CAUSE NSPI'S TEST YEAR COST TO BE TOO HIGH?

A. Yes. In developing the Low Case forecast of Net System Requirements submitted in this proceeding, NSPI assumed a "Major Paper Mill Closure" from 2007 onward, resulting in a reduction of 1,700 GWH. Given the size of the assumed reduction, the mill is clearly Stora. As the Company's response to Stutz IR-13 shows, the result of Stora being closed for 2007 would be a reduction in NSPI's fuel-related costs of [redacted]. This reduction in costs would, of course, be offset by a reduction in revenues. Using the average revenue of $60 per MWH for ELI 2P-RTP indicated in the Company's response to UARB IR-54, the lost revenue from a Stora shut down would be roughly [redacted]. Thus the net reduction in test year costs would be about [redacted].

Q. TURNING TO YOUR SECOND ISSUE, PLEASE EXPLAIN WHAT IS MEANT BY REPRESENTATIVE TEST YEAR DATA.

A. As I have pointed out in my evidence in previous General Rate Proceedings, the *NARUC Electric Utility Cost Allocation Manual* notes that the test year data which provide the basis for utility rates are expected to be **representative** of the levels that will be experienced during the time the rates are likely to remain in effect. Deciding how long test year data will be representative is a judgment which regulators need to make.

Q. ARE YOU CONCERNED THAT FUEL-RELATED COSTS AT OR NEAR NSPI'S ANTICIPATED LEVEL FOR 2007 MAY NOT BE REPRESENTATIVE?

A. Yes. Rates set in this proceeding will be in effect from April 2007 to April 2008 and possibly thereafter as well. However, as the data in Exhibit JS-3 show quite clearly, when NSPI's fuel-related costs have spiked in the past, the spikes have lasted only one year. Thus, if NSPI does not file for new rates effective April 2008, the rates in effect after that point may not reflect representative costs.

Q. CAN THE BOARD ADDRESS YOUR CONCERN WITHOUT CONSTRAINING ITS CHOICE OF TEST YEAR, FUEL-RELATED COSTS?

A. Yes. The Board can identify a level above which test year fuel-related costs will not be accepted as representative. If test year costs are above that level, the Board can require NSPI to come in for a General Rate Proceeding in 2007, for rates effective April 2008.

Q. WHAT LEVEL DO YOU RECOMMEND?

A. I recommend using $33.86 per MWH. Based on data for the period 2001 to 2006, $33.86 is three Standard Deviations above the mean. As I noted earlier, one expects most values to be within three Standard Deviations from the mean. Thus, based on recent experience as well as NSPI's forecast for 2006, $33.86 provides a reasonable cut-off point for representative fuel-related costs.

5. CLASS REVENUE RESPONSIBILITY AND RATES

Q. WHAT ISSUES WILL YOU ADDRESS IN THIS PORTION OF YOUR EVIDENCE?

A. I will address the methodology used to determine class revenue responsibility for the above-the-line (ATL) rates. I will also address NSPI's proposals for changes in its rates, particularly the suggested "true up" for the debits and credits associated with ELI 2P-RTP.

Q. WHAT APPROACH HAS THE BOARD TAKEN IN DETERMINING CLASS REVENUE RESPONSIBILITY FOR THE ATL RATES?

A. The Board has generally utilized Revenue-to-Cost (R/C) ratios, derived from a COSS developed using Board-approved allocation methods, to determine class revenue responsibility for the above-the-line rates. Historically, the Board has directed that responsibility be set so that the R/C ratios fall within the range of 95 to 105. Since 2002, the Board has also given weight to rate stability.

Q. PLEASE DESCRIBE THE INCREASES IN CLASS REVENUE RESPONSIBILITY PROPOSED BY NSPI FOR THE ATL RATES.

A. The increases proposed by NSPI are shown in Exhibit JS-6. They range from -.9 to 10.4 percent. If one removes the outlier—the decrease for the Unmetered class

due to the revised allocation of costs—the range for the remaining rate classes is still very broad—3.5 to 10.4 percent.

Q. HOW DID NSPI DEVELOP THE PROPOSED INCREASES?

A. The Company's approach is shown in Figures 9.1 to 9.4 in NSPI's evidence. An initial across-the-board increase of 7.3 percent was applied to all of the ATL rates except the Unmetered class. As a result of the initial increase the General Demand class had an R/C ratio of 108.9. The increase for General Demand was reduced to the level required to achieve an R/C ratio of 105, creating a revenue shortfall of $9.4 million. Additional increases were then assigned to all the ATL classes with R/C ratios below 100.0 to offset the shortfall.

Q. DO YOU HAVE ANY COMMENT ON NSPI'S PROCEDURE?

A. Yes, I do. In light of the increases approved in 2005 and 2006 as well as the substantial increase proposed in this proceeding, adoption of a procedure designed to produce a narrower range of increases would be more appropriate.

Q. WHAT ALTERNATIVE PROCEDURE DO YOU RECOMMEND?

A. I recommend starting as NSPI does with an across-the-board increase for all the ATL rates except the Unmetered class. Next the increase to the General Demand class should be reduced to produce an R/C ratio of 106.95, half-way between the ratio after the across-the-board increase and 105. Finally, the resulting shortfall should be recovered through an equal percentage increase to all the ATL classes

except Unmetered. Exhibit JS-6 shows the increases resulting from this alternative procedure. Comparison of the two sets of increases shown in the exhibit indicates that, compared to the Company's proposal, use of the alternative procedure produces greater rate stability while still providing a less than average increase for General Demand.

In applying my procedure, I recommend that the initial, across-the-board increase be set to produce whatever aggregate increase to the ATL classes is approved by the Board. My use of NSPI's proposed increase to develop the results shown in Exhibit JS-6 was solely for illustrative purposes.

Q. IS YOUR PROCEDURE CONSISTENT WITH THE BOARD'S STATED VIEWS AND APPROACH?

A. Yes, it is. In its recent decision in the ELIIR Replacement Proceeding the Board explained its views and procedures as follows:

> "As long as the R/C ratio falls within the target range of 95% to 105%, the Board is satisfied that all customer classes are being treated fairly and no customer class is receiving a preferential or subsidized rate at the expense of others. Indeed, the Board has approved rates where the R/C ratio for one or more classes is outside the 95% to 105% range where this has been necessary to achieve rate stability."

Q. ONCE CLASS REVENUE RESPONSIBILITY IS SET, HOW DOES NSPI PROPOSE TO CHANGE THE CHARGES INCLUDED IN THE ATL RATES?

A. NSPI proposes to increase the energy and demand charges by a uniform percentage, set to produce the revenue required from each rate class. Customer charges where they exist will not be changed.

Q. DO YOU RECOMMEND ADOPTION OF NSPI'S PROCEDURE?

A. Yes, I do. NSPI's procedure increases the percentage of revenue collected via charges per kWh or kW. As I explained in the Generic Rate Proceeding, all else equal, this provides movement toward usage sensitive rates which provide better price signals.

Q. TURNING TO ELI 2P-RTP, DO YOU HAVE ANY COMMENT ON THE $12.5 MILLION INCREASE SHOWN IN THE COMPANY'S APPLICATION?

A. Yes, I do. The $12.5 million figure does not take into account the reduction in customer cost which might be provided through the "credits and debits" paid for load shifting. As the Board noted in its decision in the ELIIR Replacement proceeding, Dr. Rosenberg indicated that the debits and credits might be worth $10 million. Nevertheless, a substantial increase in the take-or-pay portion of the rate is of some concern given the emphasis that SEB placed on stability in the recently concluded ELIIR Replacement Proceeding.

Q. NSPI HAS REQUESTED A TRUE-UP FOR THE "CREDITS AND DEBITS." DO YOU HAVE ANY COMMENTS CONCERNING THIS REQUEST?

A. Yes, I do. The actual fuel costs incurred by a utility rarely match the costs reflected in the utility's rates. For example, in a mild winter the fuel cost for serving the residential class will generally be less than the cost in rates. NSPI has not proposed a residential true-up, nor a true-up for any other rate, including the take-or-pay portion of ELI 2P-RTP. A credit and debit true-up would be inconsistent with the treatment of the costs included in all other rates. Equity suggests that debits and credits not be singled out for "special treatment." Thus, the proposed true-up should be rejected.

I would also point out that the proposed true-up would put those served on ELI 2P-RTP in the position of making potentially costly decisions to modify production in order to earn credits and debits and then, at year end when their costs are long sunk, seeing the value of the credits and debits "adjusted." The risk created by a true-up could make ELI 2P-RTP, a rate approved by the Board and selected by both Stora and Bowater, unworkable.

6. POLICY ISSUES

Q. PLEASE IDENTIFY THE POLICY ISSUES YOU WILL ADDRESS.

A. In its evidence NSPI has raised two policy issues. These are the recovery of certain additional costs, costs NSPI has not included in the required revenues requested in this proceeding, and the deferral for future recovery of roughly $18.3 million in first-quarter 2007 fuel-related costs. These two issues as well as the issue of standard filing requirements are addressed below.

Q. PLEASE BRIEFLY DESCRIBE NSPI'S PROPOSAL CONCERNING ADDITIONAL COSTS.

A. In Section 11.1 of its evidence NSPI has identified five Board-ordered reviews that might result in costs for NSPI. NSPI proposes that these costs, once they are known, be included in the Company's required revenues for 2007.

Q. DO YOU HAVE ANY COMMENTS ON THE COMPANY'S PROPOSAL?

A. Yes, I do. At the start of a General Rate Proceeding the Company puts forward a proposed level of required revenues. These required revenues are based on the test year costs the Company can identify, estimate and justify in its evidence. Under Rate Base/Rate of Return regulation using a future test year—the form under which NSPI is regulated—the Company should not be permitted to add to the costs to be included in its required revenues. Adherence to this standard allows parties to use the hearing process—discovery (i.e., information requests),

submission of evidence, cross-examination and briefing—effectively, to address the reasonableness and prudence of the costs the Company has proposed that it be allowed to recover.

Costs and revenues both can change between rate filings. The standard I have described places the short-run burden or benefit this creates on the utility. This arrangement helps regulation perform one of its key functions, providing a substitute for competition. This occurs in a number of ways:

- Regulatory lag—the term for the delay in recognizing changes in costs—helps regulation to emulate the operation of a competitive market in which producers cannot always pass increases in costs along immediately to their customers.
- Allowing utilities to benefit if they reduce costs between rate cases also emulates the competitive market in which those who find a way to cut costs can gain a benefit, at least for as long as it takes others in their field to follow suit.

In light of all of these considerations I recommend that the Board apply the standard I have described, and so not allow NSPI to include the costs identified in Section 11.1 of the Company's evidence in the rates to be set in this proceeding.

Q. NSPI HAS ALSO REQUESTED DEFERRAL OF INCREASED FIRST-QUARTER FUEL EXPENSES. DO YOU SUPPORT THIS REQUEST?

A. No. The Company enjoys the flexibility to decide if and when to file for a rate increase. In its application it sought rates effective April 1, 2007. NSPI claims that it "appropriately delayed" its application. The basic reason given for the delay was NSPI's desire for clarity whether a major customer, Stora, would continue operating. However, when NSPI filed, there remained a reasonable likelihood that Stora would shut down in 2007 as NSPI's own low case forecast confirms.

Lack of clarity on an important issue does not preclude a rate filing. Last year NSPI did not wait for "clarity" on changes in its gas supply contract. Instead, it filed and then reported the changes as the information became available. This year NSPI could have filed earlier on the assumption that Stora would operate. If it became clear that Stora would not operate and so a rate increase would not be needed, NSPI could have withdrawn the application, just as it did in late 2002.

Q. ARE YOUR RECOMMENDATION FAIR TO THE COMPANY AND ITS SHAREHOLDERS?

A. Yes, they are fair. When considering this point I would ask the Board to take into account the experience in 2006. For 2006, NSPI's forecast fuel-related expenses are over [redacted] less than those in the 2006 C data, the data upon which NSPI's current rates are based. NSPI has taken advantage of the net savings this created to [redacted], thereby improving the Company's cash flow. [redacted] Since the Company has had the flexibility to

manage between-rate-case changes as it wished in 2006 when they were beneficial, it is only fair to require the Company to manage them in 2007 when they may be burdensome.

Q. TURNING TO A NEW TOPIC, PLEASE EXPLAIN WHY YOU ARE RAISING THE ISSUE OF STANDARD FILING REQUIREMENTS.

A. In its filing, the information provided by NSPI with respect to fuel-related costs is incomplete and inadequate. For example, based on the data in the filing, it is not possible to separate NSPI's forecast Solid Fuel cost for 2007 into costs for Pet Coke and for Coal. Nor are there any data showing the calculation of key items, such as costs and revenues from the resale of gas.

Q. ARE SUCH DEFICIENCIES COMMON TO THE NSPI RATE CASE FILINGS YOU HAVE REVIEWED IN THE PAST?

A. Yes.

Q. HOW HAVE THESE DEFICIENCIES BEEN DEALT WITH UP TO NOW?

A. In response to these deficiencies, Board Staff and Consultants have begun each General Rate Proceeding by filing numerous IRs, some of which have required substantial follow-up to obtain satisfactory responses.

Q. IN THERE ANY WAY TO AVOID OR AT LEAST MINIMIZE SUCH DEFICIENCIES IN THE FUTURE?

A. Yes. I recommend that the Board direct Staff to work with NSPI and other interested parties, to develop standard filing requirements which NSPI will be required to meet when it files its evidence in any subsequent General Rate Proceeding. The requirements developed by Staff should be submitted to the Board within three months of the decision in this proceeding.

Q. DOES THIS COMPLETE YOUR EVIDENCE?

A. Yes, it does.

BACKGROUND AND QUALIFICATIONS

Education and Employment

Dr. Stutz received a B.S. from the State University of New York at Stonybrook in 1965 and a Ph.D. from Princeton University in 1969. Both degrees are in mathematics. After completing his Ph.D., he taught and did research at the Massachusetts Institute of Technology, the State University of New York at Albany where he received tenure, and Fordham University where he held the position of associate professor of mathematics and was co-director of the program in mathematics and economics. He left Fordham to help found Tellus where he has been employed since 1976.

Tellus is a non-profit organization. It provides research and consulting services to clients in the public and private sectors in the areas of energy, environmental policy, solid waste management, water resource planning, and sustainable development.

Professional Qualifications

Dr. Stutz has extensive experience in the utility industry, particularly as an expert witness. Since 1977 he has appeared before the Federal Energy Regulatory Commission (FERC) as well as Public Utility Commissions in 39 states, the District of Columbia, and three provinces in Canada. In total, he has appeared in 198 proceedings as shown in the attached table. Most of his appearances have been in electric utility proceedings. However, he has also testified on gas and telecommunications matters. Much of Dr. Stutz's testimony has addressed ratemaking issues. Since 1979, he has appeared as a witness on ratemaking in 139 proceedings. His testimony has addressed a variety of topics, including marginal costs, embedded cost-of-service studies (COSS), service quality standards, and numerous aspects of rate design.

Since the early 1980s Dr. Stutz has testified regularly on behalf of the Staff of the Rhode Island Division of Public Utilities and Carriers on ratemaking matters. Since the mid 1990s he has also testified regularly on behalf of the Staff of the Nova Scotia Utility and Review Board. In addition, Dr. Stutz is currently working for the New Jersey Division of the Ratepayer Advocate, as well as the Staff of the Delaware Public Service Commission (PSC).

Dr. Stutz's articles and comments on utility-related subjects have appeared in the *Public Utilities Fortnightly, The Electricity Journal*, and elsewhere. His paper with Thomas Austin is cited, in the second edition of Bonbright's *Principles of Public Utility Rates*, as a source of information on electric ratemaking in general and COSS in particular. He was the lead author of *Aligning Rate Design Policies with Integrated Resource Planning*, a report commissioned and published by the National Association of Regulatory Utility Commissioners (NARUC). As NARUC's preface states, Tellus was selected to prepare this report largely because of Dr. Stutz's expertise. In 2004 Dr. Stutz was an invited speaker on electricity markets at the annual CAMPUT conference, and at the Delaware PSC Conference on Standard Offer Supply.

In addition to his utility-related activities, since 1988 Dr. Stutz has worked for the United States Environmental Protection Agency (EPA), the Organisation for Economic Cooperation and Development (OECD), and various state and local agencies, on issues related to solid waste management and its impact on the environment. Over the past 3 years he has also begun to work on issues related to well-being and sustainability.

Dr. Stutz's Testimony Before Regulatory Commissions

STATE	APPEARANCES		STATE	APPEARANCES	
	Ratemaking	Planning		Ratemaking	Planning
Alabama	1		Minnesota	2	
Arizona	5		Mississippi	1	
Arkansas	1		Nevada	4	3
Canada	14		New Jersey	8	
Colorado	6	4	New York		5
Connecticut	3	3	New Mexico	6	
Delaware	3		New Hampshire	2	
District of Columbia	1		North Carolina	3	
FERC		3	Ohio	5	1
Florida	1	3	Oregon	1	
Georgia		1	Pennsylvania	2	4
Hawaii		1	Rhode Island	29	3
Illinois	1	3	South Carolina	1	
Iowa	1		Tennessee	1	
Kansas	1		Texas	7	1
Kentucky	1		Utah	2	
Louisiana	2		Vermont	3	1
Maine	11	5	Virginia	1	
Maryland	2		Washington		1
Massachusetts	1	5	West Virginia	3	
Michigan	2	12	Wisconsin	1	
				Total Ratemaking	Total Planning
				139	59

CRITERIA OF A SOUND RATE STRUCTURE

1. The related, "practical" attributes of simplicity, understandability, public acceptability, and feasibility of application.

2. Freedom from controversies as to proper interpretation.

3. Effectiveness in yielding total revenue requirements under the fair-return standard.

4. Revenue stability from year to year.

5. Stability of the rates themselves, with minimum of unexpected changes seriously adverse to existing customers. (Compare "The best tax is an old tax.")

6. Fairness of the specific rates in the appointment of total costs of service among the different customers.

7. Avoidance of "undue discrimination" in rate relationships.

8. Efficiency of the rate classes and rate blocks in discouraging wasteful use of service while promoting all justified types and amounts of use:

   (a) in the control of the total amounts of service supplied by the company;

   (b) in the control of the relative uses of alternative types of service (on-peak versus off-peak electricity, Pullman travel versus coach travel, single-party telephone service versus service from a multi-party line, etc.).

Source: James Bonbright, *Principles of Public Utility Rates*, Columbia University Press, 1961, page 291.

Exhibit JS-3

HISTORICAL AND FORECAST FUEL-RELATED COSTS

Year(s)	Fuel-Related Cost ($ per MWH)
1993	25.81
1994	25.70
1995	25.30
1996	24.30
1997	23.91
1998	24.49
1999	24.15
2000	23.95
2001	25.74
2002	28.22
2003	22.76
2004	24.11
2005	29.93
2006 (F)	[redacted]
2007 (F)	38.19

Time Period	Mean	Standard Deviations (SD)	Number of SD Between 2007 Value and Mean
1993-2005	25.26	1.86	6.95
2001-2006	[redacted]	[redacted]	4.79

TEST YEAR FUEL-RELATED COSTS
($ per MWH)

Test Year	Company Estimate	Actual/Forecast Value	Difference
2002	30.98[1]	27.10	3.88
2003	26.72	22.76	3.96
2005	29.56	29.93	- 0.37
2006	37.18[2]	[redacted]	[redacted]

(1) Subsequently revised to 29.74.

(2) Based on the gas resale benefit of [redacted] million in the Company's Supplementary Evidence, this would decline to $35.46.

Exhibit JS-5

PERCENTAGE EARNED ON GAS SALES

Test Year	Percentage		
	Company Estimate	Actual/Forecast Value	Difference
2002	16.5[(1)]	33.1	16.6
2003	39.1	59.1	20.0
2005	17.2	38.4	21.2
2006	7.2[(2)]	[redacted]	[redacted]

(1) Subsequently revised to -0.5.

(2) Based on the revised data provided on November 25, 2005 in response to Stutz IR-8, this would increase to [redacted]

(3) Based on 9 months actual and 3 months forecast data.

INCREASES IN REQUIRED REVENUES FOR THE ATL RATE CLASSES
(Percent)

	NSPI Proposal[1]	Alternative Procedure[3]
Residential	9.0	8.0
Commercial		
Small General	7.3	8.0
General Demand	3.5	5.4
Large General	8.9	8.0
Industrial		
Small Industrial	7.3	8.0
Medium Industrial	7.3	8.0
Large Industrial	8.1	8.0
Other		
Municipal	10.4	8.0
Unmetered	- 0.9	- 0.9
Total – ATL Rates	7.1[2]	7.1

(1) Data from Figure 9.4 except as noted.
(2) From Sheet 2.
(3) Except for – 0.9, all figures from Sheet 2.

CALCULATION OF INCREASES

	Revenues ($ Millions) Current[1]	Proposed[2]	Percent Increase
Total (ATL & ELI 2P-RTP)	1,077.4	1,158.7	7.5
ELI 2P-RTP	112.4	124.9	11.1
ATL Total	965.0	1,033.8	7.1
Unmetered	24.4	24.2	- 0.9
General Demand	244.3	257.5[3]	5.4
Remaining ATL	696.3	752.1	8.0

(1) Data from Figure 9.1 in NSPI's evidence.
(2) With the exception of General Demand, data from Figure 9.4 in NSPI's evidence.
(3) Increase associated with R/C Ratio of 106.95, provided in response to UARB IR-50.