2007 NSUARB-P-886

NOVA SCOTIA UTILITY AND REVIEW BOARD

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

IN THE MATTER OF: An Application by Nova Scotia Power Incorporated for Approval of Certain Revisions to its Rates, Charges and Regulations

RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: MEUNSC

Question IR-1: **Reference: Direct Evidence Page 8, Lines 3-5 "additional load adds $19.6 million to NSPI's overall fuel costs"**

What portion of this fuel cost increase is offset by revenue from additional sales?

Response IR-1: Please see response to CME IR-3.

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Question IR-2: **Reference: Direct Evidence Page 63 "Incremental load increase is 111 GWh at a cost of $19.6 million."**

a. Please explain the difference between the 17.65¢/kWh incremental cost ($19.6 million ÷ 111 GWh) of generating this load with the 10.32¢/kWh incremental cost (10.82¢ - 0.5) for the Load Following rate. Since the average demand of the load increase (12.7 MW) is about one half of that used to price the Load Following rate (25 MW), should the incremental cost not be lower? If not, why not?

b. Is the Load Following rate based on the cost of serving an "incremental" or "decremental" 25 MW of load? Is the approach indicated on Page 165 consistent with that utilized in prior rate proceedings? If not, why not?

c. Please compare the source and weightings of the generation mix described for the load increase on Page 63 with that used to price the Load Following rate.

Response IR-2: a. The quote and the calculations in this question are incorrect. The $19.6 million increase in fuel costs is associated with an increase in the net system requirement of 130.8 GWh. The correct unit cost of the 130.8 GWh incremental load is 14.98¢/kWh ($19.6 million/130.8 GWh). This additional load represents an average incremental demand of about 15 MW above 2006C. If this 15MW (incremental to the 2006 load) is to be compared to the 25MW (decremental from the 2007 load) then the 15MW should be considered a decremental load from the 2007 load.

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Response IR-2: (cont'd)

The avoided unit cost savings of a 15MW decrement should ordinarily be considered to be greater than the avoided unit cost savings of a 25 decrement under economic merit-order dispatch.

In addition, NSPI adjusts the GRLF 25MW decremental costs to remove any effects of the Company's natural gas trading activities. The Company manages fuel costs to minimize long-term costs, and in doing so, sells rather than burns natural gas at times. In-province customers are held harmless to any potential short-term negative effects of this activity on the marginal costs used to develop that rate.

b. The Load Following rate is, and has been calculated as, a 25 MW decrement. Page 165, line 23 of the Direct Evidence should read "average decremental cost", rather than incremental.

c. Although NSPI has information that has historically been used to help explain and estimate the units and fuel mix that may have been used to serve the GRLF decrement, no such detail exists with respect to the modeling of incremental load (that is, the 130.8 GWh of increased load forecast for 2007).

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TO: NSPI

FROM: MEUNSC **REDACTED**

Question IR-3: **Reference: Direct Evidence Page 183, Quarter 1 Fuel Deferral**

a. The evidence indicates that, absent some UARB directives, most notably ELLIR-2, the current rate application would have been filed earlier. Recent government indications are that only one increase would be permitted per year. With the last increase effective March 10, 2006, please explain how recovery before March 10, 2007 for the current proceeding would have been possible.

b. Is the current estimate of $18.3 million a price variance only, or does it include some volume variance which would be offset, at least partially, by revenue from increased sales?

c. Please provide a table comparing the production sources and the percentage each is of the total requirement for actual First Quarter of 2006 and the forecasted First Quarter of 2007 developed for this proceeding. Specifically, please highlight the hydro component and explain any variance.

d. Is this Fuel Deferral proposal simply another attempt at a form of Fuel Adjustment Mechanism? If not, why not?

Response IR-3:

a. On October 10, 2006, NSPI filed an application that requests an increase in rates effective April 1, 2007, which is more than 12 months after the most recent change to rates. The legislation does not Affect This Application and further discussion is hypothetical and beyond the scope of the issues under consideration in this proceeding.

b. It is a price variance only. Please refer to SEB IR-75a.

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FROM: MEUNSC **REDACTED**

Response IR-3: (cont'd)

c. Confidential Attachment 1 provides the Q1 production data for the first quarter of 2006 (actual data) and 2007 (forecast data).

d. No. The 2007 first quarter fuel cost deferral recovers a defined increase in the cost of fuel for a defined period. A FAM would regularly adjust electricity rates, both up and down, on a periodic basis to recover the cost of fuel on a timely basis.

Prudently incurred fuel expense, including Q1 2007, is a legitimate cost of service that the Company has the right to recover.

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TO: NSPI

FROM: MEUNSC

Question IR-4: **Reference: Direct Evidence Pages 182 and 183, Pending Reviews**

Please update the status and potential cost impacts of the five items referred to in the Evidence.

Response IR-4: Please refer to UARB IR-51 Part d.

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FROM: MEUNSC

Question IR-5: **Reference: Direct Evidence Page 179, Lines 13-15**

Please provide the individual utility determinants used in forecasting the Municipal Utility revenue. Individual utilities can be identified as one through six to respect confidentiality.

Response IR-5: The billing determinants by individual municipality are provided in the table below. There are seven entities because one municipality has two separate accounts, one with transformer ownership credit and one without. To keep the determinant information by the transformer ownership category consistent with responses to other IRs, these two accounts are labeled separately.

Test Year 2007 Municipal Billing Determinants

Municipalities	KWhs	Ratcheted Kva Demand
No Transformer Ownership Credit		
1	93,228,994	232,756
2	7,146,111	24,682
3	11,910,532	33,676
4	8,031,889	27,410
Subtotal	**120,317,526**	**318,524**
Transformer Ownership Credit		
5	4,768,237	10,516
6	33,074,136	71,418
7	38,118,419	103,636
Subtotal	**75,960,792**	**185,570**
Total Municipal	**196,278,318**	**504,094**

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Question IR-6: **Reference: Direct Evidence Appendix A, Financial Tables, Table 7**

a. Compliance level losses for in-province sales were 6.65% of net system requirement (Line 35, Column 3 ÷ Line 41, Column 3). The comparable level for the 2007 test year is 6.93%. Please reconcile the two levels and explain any different assumptions used in the compliance filing as compared with those used for the test year.

b. The incremental load and cost is 111 GWh and $19.6 million. The load consists of 67 GWh in sales and 44 GWh in losses, per Table 7. If losses were similar to the compliance levels, the incremental load would be approximately 40 GWh less. This would reduce fuel costs by some $7.0 million based on the average incremental costs for the incremental load ($19.6 million ÷ 111 GWh). Please confirm.

Response IR-6:

a. Transmission and distribution losses loss factors are forecast separately based on recent historical experience. These loss factors are applied to the forecast transmission and distribution loads to produce the loss forecast. The transmission loss factor has been slightly higher than forecast in the recent past and it has been increased slightly, resulting in a small change to the overall loss percentage.

b. Losses have been forecast by NSPI at the level expected. Replacing the loss estimate with another figure theoretically reduces "fuel costs" but does not change real fuel costs.

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FROM: MEUNSC

Question IR-7: **Reference: Direct Evidence, Cost of Service, Exhibit 9A, Column 2**

When compared with the compliance filing, the additional losses referenced in Question 6 become the cost responsibility of most classes in a somewhat uniform manner. However, there are some inconsistencies.

a. No additional responsibility is assigned to export sales or the ELIIR/RTP categories. Please explain why none of these incremental losses are expected to be incurred on the high voltage transmission portion of the system serving these groups, as their loss factors remain the same: 3.09% and 2.04% respectively.

b. Please explain the decrease in the GRLF loss factor from 2.34% to 2.25%.

c. Please explain why the loss factor for the Bowater Mersey category, which was previously the same as for ELIIR and RTP, increases from 2.04% to 2.30%.

Response IR-7: a. The Extra Large Industrial Interruptible Rate (ELIIR) tariff (as well as the recently approved ELI 2P-RTP tariff) stipulates the use of 2 percent energy losses. NSPI has not changed this loss estimate in its application.

Exports and associated losses are dependent upon generation availability, market opportunity and tie line activity. NSPI has used an estimate of 3 percent transmission losses for export losses in the past, and this estimate has not been changed in this application.

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FROM: MEUNSC

Response IR-7: (cont'd)

b.-c. The revised Generation Replacement Load Following loss factor results from a change in the way in which the Additional Energy portion of Bowater's load has been displayed.

Until 2005, this energy had been taken at the Load Following rate. Following a UARB decision in October 2004, Bowater elected to have this energy priced at the Large Industrial rate with the Interruptible Rider. As a result, this load has been moved out of the GRLF class reporting and has been included with Mersey Rate energy.

The overall loss percentage for combined Below The Line industrial load has not changed, only the manner in which it is accounted for by class within that group of customers.

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Question IR-8: **Reference: Direct Evidence Page 172, Lines 2-5**

a. The approach taken to recover the shortfall results in the Municipal class receiving the largest increase. Please indicate what the increases for the four affected classes would be if the shortfall were distributed based on revenue such that the relativity of their R/C rates remained the same; that is, with the Municipal class the lowest and all four classes receiving the same remaining percentage increase.

b. Please provide any additional rationale for the Municipal class receiving the largest and the only double-digit increase applicable to the ATL classes.

Response IR-8:

a. Please refer to Attachment 1.

b. The Municipal class received the largest percentage rate increase because its revenue-to-cost ratio was the lowest of the all rate classes, other than ELIIR-2, before accounting for the revenue shortfall of $9.4 million (figure 9.3). No other rationale was used.

Figure 9.4 Modified

	R/C Ratio	% Revenue Increase	Proposed Revenue
ABOVE-THE-LINE CLASSES			
Residential	**99.01%**	**8.9%**	**$524.5**
Commercial			
Small General	100.73%	7.3%	$30.2
General Demand	105.00%	3.5%	$252.8
Large General	99.11%	8.9%	$35.8
Total Commercial	**103.89%**	**4.4%**	**$318.8**
Industrial			
Small Industrial	101.33%	7.3%	$24.7
Medium Industrial	100.23%	7.3%	$50.2
Large Industrial	99.80%	8.9%	$75.1
ELIIR-2	95.00%	11.1%	$124.9
Total Industrial	**97.77%**	**9.5%**	**$274.9**
Other			
Municipal	97.77%	8.9%	$16.4
Unmetered	99.91%	-0.9%	$24.2
Total Other	**99.03%**	**2.9%**	**$40.5**
Total Above-the-line classes	**100.00%**	**7.5%**	**$1,158.6**
Below-the-line		**4.7%**	**$19.6**
Exports		**0.0%**	**$8.5**
Miscellaneous		**3.5%**	**$10.8**
Total Revenue		**7.4%**	**$1,197.6**
Revenue Requirement		**0.0%**	**$1,197.6**
Revenue Shortfall			**$0.0**

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TO: NSPI

FROM: MEUNSC

Question IR-9: **Reference: Direct Evidence Page 173, Figure 9.4**

Please provide the bill determinants in support of the proposed revenues.

Response IR-9: The reference is to the proposed revenues by rate class shown in Figure 9.4, page 173 of NSPI's Direct Evidence. Please see response to UARB IR-54.

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TO: NSPI

FROM: MEUNSC

Question IR-10: **Reference: Direct Evidence Page 174**

NSPI's approach to recovering each class' additional revenue requirements (basically across-the-board) results in the continued promotion of high cost incremental sales with the associated environmental concerns. Please indicate the energy price elasticity that NSPI utilizes in its current forecasts and provide the rationale for that level.

Response IR-10: NSPI does not promote high cost incremental sales. In its 2002 Rate Application NSPI proposed to set energy charges using marginal energy costs as a guide[1]. The Board directed NSPI to increase demand and energy components equivalently.

In its decision with respect to Generic Rate Design (NSUARB-NSPI-P-878), the Board directed NSPI[2] not to increase the customer charge components of its rates. NSPI has not sought to increase customer charges in this application.

NSPI has not sought to revise energy and demand charges independently in this application. To do so would introduce a wider variation in the rate increases experienced by customers within each rate class.

NSPI's load forecast includes a cross-product price elasticity for customers choosing electric or oil space heat. NSPI's residential econometric model includes an explicit electricity price variable.

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[1] NSUARB-NSPI-P-875, 2002 General Rate Application, Direct Evidence of NSPI, page 54, lines 4-7.
[2] NSUARB-NSPI-P-878, Generic Rate Design proceeding, UARB Decision, Aug 1, 2003, para 4.

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TO: NSPI

FROM: MEUNSC **REDACTED**

Question IR-11: **Reference: Direct Evidence Cost of Service Study, Appendix G, Table 6, Page 3 of 4**

a. Line (1) Fuel is allocated on a direct basis. Please provide the energy detail and monthly fuel cost that support this allocation. Please include the monthly sales and energy lines losses such that both can be reconciled with the annual data in Exhibit 9A from the same Study.

b. Please provide a table comparing the fuel allocation results indicated above (Table 6, Page 3 of 4, Line 1) with the cost responsibility that would occur if fuel were allocated on an annual energy requirement basis.

Response IR-11: a. Please refer to Confidential Attachment 1.

b. Exhibit 6, page 3 of 4 has been reproduced in Confidential Attachment 2, showing monthly fuel allocation, annual energy requirement fuel allocation, variance and the E-1A allocator used for ATL customer classes.

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TO: NSPI

FROM: MEUNSC

Question IR-12: **Reference: Direct Evidence, Cost of Service Study, Exhibit 9C**

a. Please provide the individual utility demands used in each of the 3 CP months for the Municipal category. Individual utilities can be identified as one through six to respect confidentiality. If individual utility demands are not available, please provide the basis for the co-incident peak estimates.

b. Do the estimates take into account the affect of weather, cold-load pick-up impacts and Municipal utility peak demand management efforts on both actual and forecasted levels? If not, why not?

Response IR-12

a. Load determinants used in the Cost of Service Study (COSS) are at the class level, not at an individual customer level. The coincident peak estimates are the class demands coincident at the time of system peak identified in the class hourly load shape.

b. Class load shapes are developed using historical information from load research analyses. Factors mentioned in this question are accounted for in the test year to the extent that they have occurred in the past.

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TO: NSPI

FROM: MEUNSC

Question IR-13: **Reference: Direct Evidence Page 63, Lines 12-15 "Load growth has significantly increased the marginal cost of electricity and is responsible for a significant portion of overall fuel cost increases in 2007." (emphasis added)**

a. Please describe any and all efforts from a DSM, energy conservation and pricing perspective that are being taken in the current test period to combat this cost impact.

b. Based on current projections, is this upwards of 2% impact on annual increase requirements expected to continue into the future? If not, why not?

c. Please indicate the major sources of load growth that are driving this cost.

Response IR-13:

a. Please refer to UARB IR-39b.

b. The forecast of annual demand and energy for 2007 to 2015 is included in Appendix F of the Direct Evidence.

c. The major sources of load growth for 2007 are outlined by residential, commercial and industrial sector in Section 7.4 of the Direct Evidence.

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TO: NSPI

FROM: MEUNSC

Question IR-14: **Reference: Direct Evidence Financial Table 7, Line 30, Column 4, Export Sales of 76.2 gWh and Cost of Service Exhibit 9A, Column 1, Line 16, Export Sales of 83.6 gWh**

Please reconcile this difference and the resultant similar 7.3 gWh variance in total sales and requirement. Since revenue levels are the same for both sales amounts, please confirm that the revenue level is correct.

Response IR-14: The difference between these figures is losses. The export revenue is correct.

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TO: NSPI

FROM: MEUNSC

Question IR-15: **Reference: Direct Evidence Cost of Service Study, Exhibit 9A, Line 9, Column 5**

Please supply the back up data to support the 99.3% System Co-incident Factor used for the Municipal class demand. Please provide the same data for Co-incident Factors for all other customer classes.

Response IR-15: The 99.3 percent system coincident factor is the percentage of the Municipal class non-coincident demand that is coincident with the time of NSPI's system peak. The process used to derive the coincident peak is discussed in the response to MEUNSC IR-12. This process is common to all rate classes.

The individual class data involved is at an hourly level of detail and would be voluminous to provide.

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TO: NSPI

FROM: MEUNSC

Question IR-16: **Reference: Direct Evidence Cost of Service Study, Exhibit 9A, Column 7**

Please explain how the demand loss factors are developed and any changes between the compliance study and that filed for this proceeding. Specifically, relative to the change for other classes, is the reduction in demand losses attributable to the ELIIR/RTP and Industrial Large categories driven from the approach applied to the energy losses discussed for IR7.

Response IR-16: Demand loss factors are developed using historical hourly load shapes. The overall demand losses are calculated as the difference between the hourly generation and the total hourly sales as determined using load research information.

The hourly system losses are apportioned across the sales classes based on their contributions to transmission and distribution requirements.

Demand losses, as a percentage of hourly sales demand, are applied to the forecast sales shown in Exhibit 9A of the Cost of Service Study (COSS). The changes in demand loss percentages that result from this procedure, and are referred to in this question, result in changes to demand estimates used in the COSS that are less than 1MW.

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TO: NSPI

FROM: MEUNSC

Question IR-17: **Reference: Direct Evidence Page 1218, Regulatory Risk**

a. Please indicate the impact on the "regulatory lag" aspect of this risk component of the recent UARB decision to defer the 2005 Quarter 1 tax impacts; and, if approved, NSPI's proposal in this proceeding to defer $18.3 million in fuel costs to recovery in 2008.

b. Does the current fuel adjustment proposal, the deferral of $18.3 million on fuel costs, afford some protection against further credit downgrades?

c. Assuming that a FAM, such as that proposed in prior hearings, were in play, is it anticipated by NSPI that any FAM-based periodic rate increases, if required, would be permitted under the proposed one increase per year legislation by virtue of some special circumstances exception. If not, please explain how any increase would be expected to be permitted.

Response IR-17:

a. While deferrals offer some opportunity to recover costs in the future, they do not fully address the underlying issue with regulatory lag, that being the opportunity for a utility to recover its cost of service in a timely manner.

b. The factors considered by credit rating agencies include the ability of the utility to recover its costs, the recovery of costs on a timely basis and ultimately the utility's cash flow.

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Response IR-17: (cont'd)

c. Bill 20 restricts rate increases from general rate applications to no more than one per 12-month period. It does not prohibit the UARB from approving a FAM, which is not a general rate increase.

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TO: NSPI

FROM: MEUNSC **REDACTED**

Question IR-18: **Reference: Direct Evidence Page 165, Line 23 and 24**

Please supply NSPI's incremental cost for the test period as developed for GRLF, on a monthly basis. Also please provide a spreadsheet showing projected hourly marginal cost for the test period.

Response IR-18: Please see confidential response to UARB IR-49(d) for monthly decremental Generation Replacement and Load Following (GRLF) costs. A spreadsheet, showing projected hourly marginal costs for an average week for each month of the test year, is also provided in confidential Attachment 1.