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Our File: G-2927
October 17, 2006

BY EMAIL AND HAND DELIVERY

Ms. Nancy MacNeil
Regulatory Affairs Officer/Clerk
Nova Scotia Utility and Review Board
1601 Lower Water Street
Suite 300, Summit Place
Halifax, NS B3J 3S3

RECEIVED
OCT 18 2006
Nova Scotia Utility and Review Board

Dear Ms. MacNeil:

Re: 2007 Rate Case

The Board has requested comments by close of business today on its proposed Issues List.

SEB proposes to argue for a new Cost of Service methodology as the basis for decision-making in the 2007 Rate Case. If this necessitates the inclusion of this topic in the Issues List, then SEB urgently requests that the Board include it.

We refer to our letter dated October 10, 2006 (copy attached for easy reference). As fully set out in that letter, it seems clear from the Board's request for comments in its September 28, 2006 Decision in the ELIIR-2 case that the Board is open to consideration of a new COS methodology. The filing of the present rate application would nullify that opportunity, certainly for the 2007 Rate Case and perhaps for many years thereafter (depending on when the subsequent rate case takes place), if the issue is not dealt with before the 2007 Rate Case is decided.

We realize that there may not be sufficient time for an independent, stand-alone hearing on COS methodologies before the 2007 Rate Case begins, but we know of no reason in principle why the Board cannot include COS methodology issues as one of the issues in that Rate Case. There are in fact many good reasons for so doing. Chief among these is a number of customer classes, including primarily the Industrial classes but others as well, that would be prejudiced by a Rate Case decision under the existing methodology, should it transpire that a more up-to-date methodology is in the public interest. As noted above, this unfortunate state of affairs could extend for many years.

In summary, SEB believes that in the interest of bringing the NSPI rate structure more into line with current conditions – assuming the arguments for a new COS methodology find

favour – it is essential to settle the COS methodology issue before a decision is made in the 2007 Rate Case. For this reason, SEB urgently requests that this topic be included in the Issues List. Not to adopt this proposal would mean that the filing of the present Rate Case has preempted the Board's own decision indicating openness to re-consideration of the COS methodology.

Yours truly,

McINNES COOPER

George Cooper

(953571)
cc: René Gallant
Bruce Outhouse, Q.C.

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RECEIVED
OCT 18 2006
Nova Scotia Utility and Review Board

COPY

Our File: G-2898
October 10, 2006

BY EMAIL AND HAND DELIVERY

Ms. Nancy MacNeil
Regulatory Affairs Officer/Clerk
Nova Scotia Utility and Review Board
1601 Lower Water Street
Suite 300, Summit Place
Halifax, NS B3J 3S3

Dear Ms. MacNeil:

Re: Submissions Regarding Cost of Service Methodology Hearing

In its Decision dated September 28, 2006 relating to a rate to replace the ELIIR, the Board at paragraph 188 stated that it was prepared to consider whether a Hearing into NSPI's Cost of Service (COS) methodology is appropriate at this time. The Board gave parties until October 30, 2006 to file additional written submissions on the issue, following which it would decide whether to hold such a Hearing. Following are SEB's submissions.

The Board will be fully cognizant of the points raised by Dr. Alan Rosenberg and Mr. Mark Drazen in the recent Hearing on this subject, and accordingly we will not reiterate them in this letter. Instead, we will simply summarize the reasons why, in SEB's opinion, a Hearing into the COS methodology is both appropriate and necessary at the present time.

To begin with, the current COS methodology derives from a Decision of the Board made in 1995, some 11 years ago, based on an application filed some two years prior to that in 1993. It would not be out of the ordinary, therefore, to contemplate a thorough review, merely on the basis of the passage of time. Added to that, however, is the fact that the system itself has undergone certain fundamental changes, as have the circumstances in which the system operates, as follows: –

1. the large step increase in the system load in 1998 when Stora Enso's new PM-2 load came on, taking up much of the then-existing surplus energy on the system;

2. the introduction of natural gas to the fuel mix in Nova Scotia in 1999;

3. the termination of the Devco coal supply contracts in 2000;

4. the shift to international coal in the years following the Devco closure;

5. the introduction of the LM6000s;

6. the extra volatility experienced in fuel prices from the international market in recent years;

7. the introduction of substantial quantities of wind power, and the prospect of further large increases in wind power as the Province rolls out its Renewable Portfolio Standard; and

8. the move to a partially competitive market with the recent Board approval of NSPI's OATT in conformity with similar moves in adjacent jurisdictions, and the opening of the municipal market.

In addition, the Board's decision to include SEB (or, more accurately, the new rates for Extra Large Industrial users) in with the other ATL rates changes the COS Study itself, not least by raising the load factor of the system as a whole and thus tilting the current classification methodology even further towards the energy side of the Demand/Energy equation.

The plain fact, as demonstrated by Dr. Rosenberg's Responsive Testimony in the recent ELIIR-2 case, is that the current COS Study inappropriately impacts high load factor customers, compared to the COS methods prevalent in other Canadian provinces and many U.S. states as well. In fact, the current methodology imposes more costs on high load factor customers than virtually any other jurisdiction of which we are aware in North America. The current methodology imposes higher costs not only on high load factor Industrial customers, but quite possibly other customer classes as well.

In SEB's view, the timing of this Review Hearing is important. If the COS methodology is in need of adjustment, then this decision should be made prior to any decision in the next general rate case rather than being delayed such that it would not take effect until some future general rate case. Secondly, most potential intervenors, having been participants in last month's ELIIR-2 Hearing, are very attuned to the COS methodology issue and ready to deal with it. Finally, holding the hearing now would be an efficient use of work recently done by some of the parties and their experts.

Accordingly, SEB submits that the Hearing proceed as quickly as possible, in order that all parties may have input without unduly delaying any potential general rate application from NSPI.

Yours truly,

McINNES COOPER

George Cooper

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cc: René Gallant
Bruce Outhouse, Q.C.