June 21, 2018

VIA EMAIL

Ms. Doreen Friis
Regulatory Affairs Officer/Clerk
Nova Scotia Utility and Review Board
1601 Lower Water Street, 3rd Floor
Halifax NS B3J 3S3

Dear Ms. Friis:

Re: M08059 – Generation Utilization and Optimization Report

Please accept these comments on behalf of the Small Business Advocate (SBA).

BACKGROUND

The SBA has been actively involved in the review of NS Power's (NSPI) continued expenditures and capital improvements in its generation fleet for nearly the last decade. This has included participation in the Annual Capital Expenditure (ACE) Plan reviews, various individual capital expenditure matters, and the Integrated Resource (IRP) planning process. The SBA acknowledges that the economic viability of continued operation of NSPI's thermal generation fleet was a major element of NSPI's last IRP effort with the introduction of the 'sustaining capital' investment estimates for its existing generation.

It is clear that the electric utility sector is undergoing enormous transformation, including the development of wind turbines within Nova Scotia, the implementation of renewable energy choice for customers through the Renewable to Retail program, and the completion of the Maritime Link transmission line which will ultimately bring significant amounts of electric energy generated from the large hydro facilities at Muskrat Falls. All this transition leads naturally to the question of when NSPIs older fossil fueled generation fleet will become economically obsolete. It is critical to analyze and understand the potential for such economic obsolescence in the next two decades to guide continued operation, maintenance and especially capital investments in this area. Failure to do so could result in customers, such as small businesses, paying more for their electricity than is necessary and NSPI have a significant amount of ultimately stranded assets.

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GENERATION UTILIZATION AND OPTIMIZATION REPORT (THE "REPORT")

The SBA has been involved with this process from the development of the Terms of Reference for Synapse, through the March 28th Technical Session, and has now had the opportunity to review Synapse's final report - Nova Scotia Power Inc. Thermal Generation Utilization and Optimization Economic Analysis of Retention of Fossil-Fueled Thermal Fleet To and Beyond 2030 (the "Report") in detail. Overall the SBA is satisfied with the Report's assumptions, analysis and information produced. The SBA agrees with the results cited in the Report that the thermal fleet will likely be economically beneficial to NSPI customers through 2030 except for coal unit Lingan 2 and the Tufts Cove units.

However, the SBA is concerned that the results of the scenarios modeled are being improperly interpreted as signals to pursue specific resource planning activities. The proper place for evaluating all other resources and for setting direction should be the next IRP by NS Power. SBA has concerns that the study was never intended and thus not designed to provide guidance on other energy and capacity resources.

OBJECTIVE OF THE REPORT

It is important to keep in perspective that the objective of the Report by Synapse in this matter was stated as follows:

> The purpose of the Generation Optimization and Utilization study is to determine the extent to which it is cost effective to ratepayers to retain Nova Scotia Power Inc.'s (NSPII) thermal (steam) fleet through, and possibly beyond 2030.[1]

It is clear that it was not the intention of the Report to recommend resource planning priorities for Nova Scotia. However at the end of the Report, Synapse provides NSPI with 9 recommendations and action items, as set out on pages 56 and 57 of the Report.

NSPI COMMENTS

NSPI published their comments on the Synapse report on June 7, 2018, in which they state that the Report provides comfort that NSPI's near-term thermal investment strategy, including retention of the coal fleet through 2030, is cost-effective for ratepayers.

NSPI states in its comments that they are in support of all 9 of the recommendations made by Synapse while only elaborating on a few. Regarding the costs and achievable potential for energy efficiency and DSM, NSPI states the need for a new DSM potential study to be completed before the next IRP. With respect to the monitoring and investigating of battery storage costs, the response by NSPI references the need to develop detailed costs and performance assumptions for use in the next IRP, plus continued monitoring in order to determine the optimal timing for future battery storage investment. In determining the "next" candidate for coal retirement, NSPI notes that there

[1] Nova Scotia Power Inc. Thermal Generation Utilization and Optimization Economic Analysis of Retention of Fossil-Fueled Thermal Fleet To and Beyond 2030 – M08059, Synapse Energy Economics Inc. (the "Report"), May 1, 2018, page 1.

may be other factors that need to be considered beyond just ordering based on "best-to-worst" economic performers and suggests flexibility in unit rankings as unforeseeable issues arise.

SBA POSITION

The SBA is concerned about the singular reliance on long-term metrics such as the Net Present Value of Revenue Requirements, 2018-2042[2]. While acknowledging that this is a common practice in utility planning and especially advocated by Synapse, the SBA believes that customers, especially the small business customers in Nova Scotia, are concerned about their near term electric costs equally or more so than the costs over 25 years. The SBA also expressed concern during the March Technical Session that the comparisons made of this parameter was obscured by carrying common costs and thus understating percent differences between plans. The SBA submits that observations should not be made from these comparisons. The SBA would have liked to see the impact on the short term price of electricity be provided for additional insights regarding the potential costs or benefits of retirement of NSPII thermal generation.

The SBA cautions against placing undue importance to some of the findings highlighted by Synapse and supported by NSPI. Many of the observations simply reinforce the activities that should be part of NSPI's resource planning agenda in preparation for its next IRP. These include Recommendations 1, 5, 6, 7 and 9[3]. The SBA does not have any concerns about NSPI spending resources and time on these recommendations, but submits that they should not be given enhanced priority as a result of being referenced in the Report.

The SBA also submits that it would be beneficial for NSPI to establish detailed tracking within its ACE Plans concerning the amount of investment projected for sustaining capital investment for each thermal generating unit and provide comparisons to the assumptions used in this study.

KEY FINDINGS

The SBA believes that there are three key findings arising from the Report:

1. The Thermal Fleet, except for Lingan 2 and the Tufts Cove units, warrant investment and it is highly likely they will provide economic benefits by their operation through 2030
2. Any noticeable increase in sustaining capital investment requirements for the Thermal Fleet could make some units economically obsolete and thus retirement candidates,
3. The cost and availability of alternative resources will affect the economic value of the Thermal Fleet continued operation.

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[2] Exhibit N-1 – the Report, Pages 33-40

[3] Exhibit N-1 - the Report, Pages 56 and 57.

NEXT STEPS

The SBA agrees with NSPI that hearings are not necessary in this matter. The Report has answered the main question, and provided sufficient information to allow all stakeholders to be comfortable with the results. The SBA instead encourages NSPI to conduct a comprehensive IRP in 2019.

Yours very truly,

E. Nelson Blackburn, Q.C.
Small Business Advocate