Nova Scotia Energy Board

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Michael Willett
Director, Regulatory Finance
Nova Scotia Power Inc.
PO Box 910
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Dear Mr. Willett:

M12350 – Nova Scotia Power Inc. – 2024 Short Run Marginal Cost Test to Rates Report

On June 27, 2025, Nova Scotia Power Inc. filed its Short Run Marginal Cost (SRMC) Test to Rates Report for 2024, pursuant to the Board's Order NSUARB-NSPI-P-878.2 dated August 1, 2003, on Generic Rate Design. NS Power re-filed the 2024 Report on August 15, 2025, following a letter from the Board questioning a discrepancy about data in the Report.

This matter was reviewed by Roland A. Deveau, K.C., Vice Chair.

The SRMC test is intended to be a check for each rate class to determine if, excluding fixed monthly charges, the average revenue per kWh is greater than or equal to the average marginal energy cost. NS Power modified the 2024 class revenues for the 2025 FAM AA and BA amounts associated with the cost imbalances that were incurred as of September 2024. The Report provides two analyses based on revenues, with and without adjustments. NS Power reported that all 16 above-the-line rate classes and the two below-the-line rate classes passed the SRMC test in 2024.

The calculated average annual marginal cost for 2024 was 8.122 cents per kWh, representing an increase of 14.7% from 2023. The Report noted that it increased primarily due to changes in the types of generation used which were selected to meet environmental standards and increases in load.

The Report explains that marginal costs are usually greater than the average system fuel costs but not the overall unit revenues. To comply with renewable energy standards and air emissions limits, there is more must-run, non-dispatchable generation to replace marginal coal-fired generation. The change in generation mix brings the average marginal cost closer to the average system fuel cost.

In its letter accepting the 2023 SRMC Test to Rates Report (M11683), the Board encouraged NS Power to evaluate its price elasticities to ensure they accurately reflect consumer behaviour in the Nova Scotian context and the ability to substitute. The price elasticities used in the modelling are based on American data collected in the 1980s and 1990s and generally were for summer and dual peaking utilities. In the decades since these elasticities were estimated, there have likely been substantial behavioural and environmental changes.

The 2024 Report cited a comparison of the estimated price elasticities from the Time Varying Pricing (TVP) Pilot to the price elasticity used in the 2024 Load Forecast Report (M11689). The TVP pilot evaluation measured daily price elasticities (change in consumption due to a change in prices) ranged between -0.458 and -0.084 and the inter-period substitution price elasticity (customers' ability to substitute inexpensive off-peak consumption for more expensive peak consumption) ranged between -0.186 and -0.161. The 2024 Load Forecast, which forecasts energy sales for a 10-year period, uses a price elasticity of -0.15, indicating that demand is inelastic. The 2024 Load Forecast considers the price elasticity in its model to be close enough to the inter-period substitution price elasticity in the TVP pilot and did not make any adjustments.

Similarly, the SRMC Report intends to continue using -0.15 in keeping with the Load Forecast Report until changes are made to the Load Forecast. However, the 2024 Load Forecast Report noted that while the price elasticity does influence sales, it is not as significant a factor compared to other components of the model such as Demand Side Management or Electric Vehicle adoption. Given that price elasticity is a significant function of the SRMC test, the Board directs NS Power to provide a sensitivity analysis of the SRMC following any material changes in price elasticity found in the TVP program to assess the accuracy of the SRMC test, and to confirm in future annual reports whether or not such analysis was required due to a change in price elasticity observed in the TVP program.

The Board accepts the 2024 SRMC Test to Rates Report, as refiled in Exhibit N-2.

Yours very truly,

Crystal Henwood

Crystal Henwood
Clerk of the Board

c. William Mahody, K.C. Board Counsel