

OPENING STATEMENT OF BRUBAKER & ASSOCIATES, INC. (BAI)
ON BEHALF OF PORT HAWKESBURY PAPER LP

NOVA SCOTIA ENERGY BOARD — MATTER NO. M12661

Good morning, Commissioners, Board Staff, and Counsel. My name is Colin Fitzhenry, and appearing with me virtually is Michael Gorman. We are regulatory and economic consultants with Brubaker & Associates, Inc., appearing in this proceeding on behalf of Port Hawkesbury Paper LP.

The matter before the Board involves Nova Scotia Power Inc.'s application to establish the Extra Large Industrial Dispatchable (ELID) Tariff. This tariff represents an essential transition for PHP from an incremental, below-the-line rate structure under the expiring ELIADC Tariff to a fully costed, above-the-line embedded cost-of-service tariff. While we support this structural transition in principle, the proposed rate design and cost allocations filed by Nova Scotia Power, as well as the alternative proposals advanced by certain intervenors, depart sharply from fundamental cost-causation and non-discriminatory ratemaking principles, resulting in a substantial over-allocation of costs to PHP.

Our evidence focuses on several central cost-allocation and tariff-design elements required to ensure that the ELID Tariff produces just, reasonable, and non-discriminatory rates.

First, regarding demand cost allocation, Nova Scotia Power proposes to apportion production and transmission capacity costs using an assumed 65 MW Three Coincident Peak (3-CP) demand determinant, which combines 8 MW of firm demand and 57 MW of interruptible demand. Under well-established cost-of-service principles, utility capacity is planned and built to meet peak demand. PHP's firm demand service is strictly 8 MW, while its interruptible load is served on an as-available basis, it does not drive generation or transmission capacity additions, and is dispatched down or curtailed during periods of system constraint. Consequently, allocating firm capacity costs based on a 65 MW demand determinant artificially inflates PHP's cost responsibility, and its capacity cost allocation should properly be based on its 8 MW firm contribution. In this context, the Industrial Group's proposal to allocate demand using PHP's 120 MW annual average load represents an unjustified departure from standard ratemaking. Because the 3-CP allocator is applied to every other above-the-line rate class, imposing a punitive average-load allocator exclusively on a single industrial customer violates the statutory prohibition against unjust discrimination under the *Public Utilities Act* and must be rejected.

Second, with respect to the Interruptible Rider (IR) credit, if the Board adopts Nova Scotia Power's framework of charging PHP for 65 MW of capacity, cost causality requires that the 57 MW of interruptible demand be credited at Nova Scotia Power's avoided marginal cost of capacity. The Company's established methodology for pricing the avoided cost of peaker capacity yields an interruptible credit of \$13.107 per kVA. Applying the General Rate Application settlement figure of \$7.667 per kVA, which derives from the distinct billing determinants of the Large Industrial Interruptible class, arbitrarily denies PHP approximately \$4.2 million annually in avoided capacity value that its non-firm load provides to the grid. Full crediting ensures firm ratepayers remain economically indifferent between adding peaking generation or avoiding capacity additions through interruptible service.

Third, addressing the Revenue-to-Cost (R/C) ratio, Nova Scotia Power proposes an R/C ratio of 1.04373, requiring PHP to pay 4.373% above its allocated cost to serve. While R/C ratios above 1.0 are sometimes employed to mitigate cost-shifting among existing customer classes when rate changes produce detrimental impacts to a specific customer class, PHP is entering an entirely new above-the-line class and has never previously been costed through the embedded cost study. Mandating an above-cost premium on a newly established class over-allocates costs to PHP without cost justification. For these reasons, the Board should instead adopt an equitable R/C ratio of 1.0.

Fourth, the ELID Tariff rates must be updated to incorporate PHP's 2027 energy forecasts, properly reflecting the upfront displacement of grid-supplied energy by the 168 MW Goose Harbour Lake Wind Farm. Aligning energy billing determinants with actual expected energy purchases upfront establishes accurate per-unit rates and avoids unwarranted distortions in cost recovery.

Finally, with respect to the Dispatchable Rider (DR) and Priority Interruptible (PI) service, BAI's evidence confirms that the operational energy-shifting benefits under the DR, and the avoided-capacity reliability benefits under the IR, are separate and distinct. Because PHP absorbs a full embedded cost allocation under the ELID Tariff, 100% of the operational fuel and variable O&M savings generated by the mill's load flexibility should accrue to PHP, and diluting this credit through a sharing mechanism would undermine the customer's incentive to provide voluntary dispatch flexibility. Similarly, compensating PHP with a 10% premium for Priority Interruptibility is fully justified because PHP accepts the highest-risk tier of forced curtailment, directly shielding other industrial customers and operating reserves from disruption.

In BAI's reply evidence, we directly address the alternative recommendations filed by the other parties, which collectively depart from cost causation and impose undue burdens on the ELID class. The Industrial Group's proposals, seeking to strip PHP of the interruptible and priority credits, mandate physical operational control, and impose an asymmetric 120 MW average demand allocator, are discriminatory, punitive, and ignore the clear separation between energy-shifting dispatch and reliability curtailment. InterGroup's attempt on behalf of the Consumer Advocate to freeze PHP into an above-cost R/C ratio and force the Large Industrial Interruptible credit onto PHP disregards the explicit reservation of rights in the Settlement Agreement, relies on unrelated class billing determinants, and overlooks the fact that substantial fixed capacity costs are already paid by PHP through the energy charge. Synapse's proposed reduction to the capacity credit to reflect PHP's revenue contribution applies a penalty not imposed on other interruptible classes, amounts to a negligible adjustment of approximately three percent, and fails to recognize that PHP's direct high-voltage connection imposes no peak transmission expansion costs. Finally, Bates White's recommendations must be rejected because their call to recalculate the energy charge relies on a speculative 121 GWh net load metric that they themselves concede is inappropriate for setting cost-based rates, their proposed true-up mechanism infringes upon contractual billing rights under the approved Power Sales Agreement, and their rejection of the Dispatchable Rider undervalues a proven tool that lowers marginal energy spikes across the entire system.

Thank you for the opportunity to provide this opening statement. Mr. Gorman and I welcome any questions from the Board, Board Counsel, and the parties.