Nova Scotia Energy Board

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Michael Willett
Senior Director, Regulatory
Nova Scotia Power Inc.
1223 Lower Water Street
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Dear Mr. Willett:

M12887 – Nova Scotia Power Inc. – 2025 Short Run Marginal Cost Test to Rates Report

On May 29, 2026, Nova Scotia Power Inc. filed its 2025 Short Run Marginal Cost (SRMC) Test to Rates Report, following the Board's Order NSUARB-NSPI-P-878.2 dated August 1, 2003, on Generic Rate Design. NS Power refiled the 2025 Report on June 5, 2026, following a letter from the Board questioning a discrepancy about data in the Report.

This matter was reviewed by Richard J. Melanson, LL.B., Member.

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. Should rate classes continuously fail the test, a review of their rate design may be warranted.

The Report explained that marginal generation costs used in the SRMC test only account for the marginal fuel, generation, operation and maintenance costs and do not reflect fixed costs. Typically, marginal costs are greater than the average system fuel costs, but not the overall unit revenues. With the addition of must-run, non-dispatchable generation replacing marginal coal-fired generation, the change in generation mix produces an average marginal cost that is closer to the average system fuel cost.

The Report provided two analyses based on revenues, with and without adjustments. The first test uses the base cost of rates. The second test made modifications for future revenue adjustments. NS Power adjusted the 2025 class revenues in the 2026 FAM AA and BA amounts, associated with the cost imbalances incurred as of September 2025.

All the tested rate classes passed both SRMC tests.

The calculated average annual marginal cost for 2025 was 9.048 cents per kWh, representing an increase of 11.4% from 2024. The Report noted that the marginal costs increase reflected changes in the types of generation used, commodity prices and a growth in load, in addition to fluctuating natural gas prices.

The Board's decision in the 2024 SRMC Report directed NS Power to conduct a sensitivity analysis of the SRMC where material changes in price elasticity are found in the TVP pilot program, in order to assess the robustness of the underlying SRMC test and determine whether further analysis is warranted. NS Power confirmed that it reviewed the price elasticities used in the 2024 SRMC Report and assessed the applicability of the price elasticities for certain rate classes and uses in the 2024 Time Varying Pricing (TVP) pilot program report to the 2025 SRMC Report.

NS Power reported that its review of short-term price elasticities for the winter periods of the domestic time-of-use (TOU) and critical peak pricing (CPP) rate classes found notable variations in price elasticity. As illustrated in Figure 2: Inefficient Use Estimates by Rate Class Caused by One Percent Differential Between Unit Revenue and Marginal Cost, the table compares the current price elasticity with the daily price elasticities as measured in the TVP pilot. This comparison produced ratios of the elasticities (TVP pilot elasticities/current elasticity) for the TVP residential classes during the winter months and critical peak periods ranging from 10.7 to 0.1.

NS Power committed to monitoring these rate classes for further changes in price elasticity and to continue evaluating price elasticity changes in future Load Forecast and TVP pilot program reports to inform subsequent SRMC analyses, as appropriate. The Board so directs.

The Board accepts the 2025 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