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October 7, 2014

OUR FILE:

Mr. Tim Wood
Nova Scotia Power Inc.
1223 Lower Water Street
Halifax, NS B3J 2W5

Dear Mr. Wood:

RE: M05522 - Nova Scotia Power Inc. (NSPI) 2014 Integrated Resource Plan (IRP) - P-884.14 - Comments on Draft Report

I. Introduction

The Small Business Advocate (“SBA”) once again would like to emphasize that the small businesses of Nova Scotia are grateful for the opportunity to participate as an active stakeholder in the NSPI 2014 IRP. The SBA views this IRP as an important planning exercise which will influence electricity costs over the next 25 years and beyond. The SBA and its consultant have reviewed the 2014 IRP Draft Report distributed on September 30th by NSPI. The tight schedule and the large amounts of information within the materials has made it necessary to focus our review on the high level conclusions about resource priorities and NSPI’s proposed Action Plan. The SBA offers these comments as its next step in participation throughout the IRP process. Nothing in these comments should imply that the SBA is supportive of the development of resources given emphasis in NSPI’s strategic direction.

II. Overview of SBA Comments

The SBA comments touch upon several areas; the analytical results, the resources which NSPI is giving priorities based upon the analytical results and the action plan items that NSPI provides in the report.

The SBA has concerns that the process falls short of NSPI truly capturing the value of stakeholder engagement. The SBA recognizes the need to develop sufficient analysis in order for NSPI to understand the implications of alternative strategies for resource development over the next five years. However this analysis must not come at the expense of a more informed stakeholder process. The SBA has not been able to discern in reviewing the draft report where its comments and those of other stakeholders have affected the strategy NSPI will chose to pursue as an outcome of this IRP.

The SBA is encouraged that NSPI has stated “The Company does not consider the end of the analysis phase to be the conclusion of the IRP. There is significant work ahead and NS Power would like to continue to engage the stakeholder group as part of that process.”¹

III. Comments on Results

The SBA was pleased NSPI discussed the need to ensure that several considerations apply when choosing a resource strategy. However, the draft report still focuses on long term net present value of costs of the various resource strategies for different periods available from the Strategist Model. NSPI now recognizes the importance of affordability considerations, as well as risk, flexibility and robustness of the ‘candidate resource plans’. Some parties have previously commented they agree this emphasis is appropriate. The Board Consultant and IRP Facilitator state, “the extent that ‘rate effects’ are considered as one of the criterion for choosing a long term resource plan, that criterion should be applied over the 25 year planning period rather than the first five years of the planning period.”² The SBA is concerned that this focus on the long term ignores affordability. The SBA cannot emphasize enough the importance of affordability to the small business community as they attempt to survive and thrive in a challenging economic climate.

As described by NSPI, the SBA agrees that it is best when several metrics are used that provide visibility of differing impacts on Nova Scotia ratepayers over various periods of time is appropriate.³ The metrics listed in this discussion are as follows:

- NPV: Cross-section of near and long term
- Rate Effects: Relative time-series of revenue requirements
- Future Regulatory emissions outlook
- Risk: Relative complexity of the plans
- Flexibility Diversity of technological solutions
- Robustness: Results of Sensitivity Analysis

¹ NSPI 2014 IRP Draft Report, dated September 30, 2014 p. 19 of 77 lines 30-32

² Memo Roger Hornby, Board Consultant, Facilitator to Stakeholder Group for NS Power IRP, dated October 3, 2014 page 2

³ NSPI 2014 IRP Draft Report, dated September 30, 2014 p. 40 of 77 line 19 through p. 41 of 77 line 44 of

The SBA is not satisfied that the Rate Effects metric provides true visibility into the short term impacts on customer long range planning. The SBA's consultant has discussed the merits of determining a price of electricity impact, rather than a short term revenue requirement impact as a short term measure of affordability. The SBA agrees that the results show high short term revenue requirements stemming from increasing levels of DSM expenditures. This is a function of many assumptions, the greatest of which is design and cost of DSM programs that would be sponsored by ENS in the future.

Similarly, the SBA is not surprised by the economics favoring the extended operation of existing resources including investment in environmental control equipment that may enable NSPI to resume using domestic coal. Capitalizing on indigenous resources can be beneficial to business and residential customers. However, the SBA would like to see more specific results that emphasize the threshold amount of expenditures that can be made on existing units that would result in conclusions to retire units earlier. This information will be critical in the upcoming ACE reviews. The SBA would suggest that NSPI file a multi-year expenditure forecast, rather than assumptions, on units where early retirement versus continued operation is being considered.

The draft report lacks a discussion comparing the merits of near term investments in DSM and near term investments in existing coal units. The SBA would like to see this more clearly discussed in the final report.

The SBA does not believe that the percent differences metric used by NSPI⁴ is a useful metric. Percent differences that carry significant common costs, such as the dispatch of all resources, will generally suggest that the plans are all the same. The SBA suggests this metric should be removed from NSPI's final report. NSPI and other stakeholders are making observations that since percent differences in this metric are small that the potential savings by following lower cost strategies are inconsequential. The savings in the near term and long term are important. This metric does not isolate the costs under consideration from common costs to the candidate resource plans.

⁴ NSPI 2014 IRP Draft Report, dated September 30, 2014 p. 54-55 of 77.

IV. Comments on Resource Options Emerging as Favorable

DSM - The SBA is pleased that NSPI has studied a variety of resource options that cover DSM, renewable energy, continued operation versus retirement of resources and conventional utility scale natural gas generation. However, NSPI seems more concerned about the risks of the levels of DSM programs that it does not exhibit with supply options such as continued coal unit operation or large energy imports. NSPI is using its learning on the potential rate impact metric as a reason to raise concern about expenditures on DSM. NSPI fails to specify the characteristics of DSM programs that create short term revenue requirement impacts. The SBA understands these characteristics appear to be two factors; the expense versus capitalization of program costs when factored into ratemaking and ENS program designs emphasizing direct incentives rather than DSM investment financing options which would mitigate some of the short term revenue requirements. NSPI in its report should discuss these characteristics so that its dialogue with ENS is informed by IRP results.

Continued Coal Unit Operation and Investment – It appears to the SBA that NSPI has made a reasonable analysis of the investment requirements over time for its coal units, “sustaining capital investment”. The SBA is intrigued by the potential to once again use indigenous coal resources. The SBA does not however see in the report any discussion of economic, reliability and environmental risks that could result from continued coal rather than other resource options. The risks of coal reliance should be addressed in the Report and Action Plan.

Regional Options - The SBA is not satisfied anything in this analysis under IRP demonstrates positives and negatives of reliance on regional resources through power purchases, either at the planned level of the maritime link or beyond. The SBA anticipates this as a problem as the magnitude of costs and risks of such regional reliance are significant. The SBA notes that the impacts on reliability, stability and required reserves of regional resource reliance have not been discussed, nor have they been included in the Action Plan items for regional resources.⁵

V. Comments on the Action Plan Items

The SBA recognizes that the IRP analysis is a learning exercise. The actual strategic direction chosen by NSPI should not be limited to one of the candidate resource plans, more than likely the preferred plan could be a hybrid of two or more evaluated candidate resource plans.

The SBA is of the opinion that a discussion of an Action Plan in the report does not flow as directly from a discussion of the trade-offs and a clearly discussed decision process. . The SBA is not endorsing the Action Plan however, will offer these specific comments on elements of the Action Plan.

- Demand-Side Management – The SBA does not understand on what basis the proposed action of pursuing demand response is made. Also, the SBA is concerned with the performance of all resources not just DSM.

⁵ NSPI 2014 IRP Draft Report, dated September 30, 2014 p. 63 of 77

- Renewable Resources – Why will it take NSPI two years to its interconnection and capacity value study for renewables?_ When will NSPI report to the UARB on its 10 Year System Outlook Report? Will there be a stakeholder process for discussion of that report which is now looking like an extension of IRP?
- Regional Opportunities – Why are these part of the IRP Action Plan however absent from the IRP analysis?
- Existing Thermal Resources – How much investment in existing resources is NSPI planning to make during the next 24 months while it studies ‘Best Practices’ of the industry? Why does this take 24 months?
- What is the current retirement plan that will be presented in the 10 Year Outlook?

VI. Summary

While the SBA is pleased to have the opportunity to participate in the IRP process, it is evident stakeholder involvement should continue as the IRP develops. The comments of stakeholders during the process has not seemed to alter the work plan, results and conclusions made by NSPI. This has occurred notwithstanding the presence of Board consultants and facilitators. The SBA offers these comments. However, the SBA is unable endorse the IRP analysis, results, decisions and action plan at this time. The SBA expects an active role as resource development investments are brought to the Board for approval in various proceedings.

Yours truly,


E.A. Nelson Blackburn, Q.C.

SMALL BUSINESS ADVOCATE

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