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Mr. Stephen McGrath, Chair
Utility and Review Board
1601 Lower Water Street
Halifax, Nova Scotia B3J 3P6

November 28, 2022

Dear Mr. McGrath,

I recently became aware of a proposed settlement with respect to matter number: M10431. I have been taken aback by what I have seen and, rest assured, the Province of Nova Scotia will make its full position clear in its closing statement, however, given the urgency of the situation and high degree of public concern and interest, I felt it important to share my thoughts with you immediately.

I do not believe, based on what I know, that the proposed agreement is in the best interest of ratepayers. As such, on behalf of the Province of Nova Scotia, I would respectfully ask that the UARB set the agreement aside and reach its own conclusion on the aforementioned application.

It is so critically important that a key missing voice is heard, and that is the voice of Nova Scotians and those focused only on protecting the ratepayers.

I see standing up for Nova Scotians as my responsibility as Premier. The UARB mandate places a similar obligation on you:

> "*The Board's role is to ensure customers receive safe and reliable service at just and reasonable rates.*"

It is our shared responsibility to protect ratepayers and I can't state strongly enough how concerned I am that the agreement before you does not do that. Below, I will raise some of the basic concerns we identified from our initial review of the settlement proposal.

My comments are based on my understanding that the proposed settlement would see Nova Scotia Power receive a rate increase (including fuel costs) of at least 6.9% in 2023 and another 6.9% in 2024, totalling 13.8%. Incidentally, this increase is remarkably consistent with the 13.7% rate increase Nova Scotia Power was originally seeking in this GRA, before the Legislature unanimously passed Bill 212, limiting the non-fuel rate increase to no more than 1.8% over 2023-2024. I understand that Nova Scotia Power would argue the differences between their new 13.8% increase and the initial 13.7% but find it interesting that the numbers are essentially the same.

Specifically, the proposed 13.8% increase, appears to be made up as follows:

- Non-Fuel Rate increase allowed under Bill 212: 1.8%
- Fuel Cost increases: 8.1%
- Additional rate increase labeled as "DSM Rider:" 3.9%

Impacts on ratepayer groups vary, with the residential sector to face a 13.8% impact; large industrials at 9.7%; and small business hit hardest at more than approximately 16%, but in overall cash terms, this would be an increase to ratepayers of approximately $220 million per annum by 2024.

We have observations, questions and concerns with respect to the following sections of the proposed settlement:

Fuel Costs

It is important to keep in mind that the additional fuel costs falling to ratepayers are largely due to the rising cost of coal and gas required to replace the undelivered Maritime Link/Labrador Island Link (LIL) energy. To begin to achieve this, Nova Scotia Power proposes that an extra 8.1% in fuel costs should be added to rates, in increments of 1.5% in 2023 and 6.6% in 2024.

Beyond the 8.1%, an additional $200 million in fuel costs is proposed to be deferred to 2024, with the AA/BA process adding these costs in for 2024 and for 2025. Under the proposed agreement, these future rate increases will occur on top of Nova Scotia Power's proposed 13.8% stated rate increase.

I have the following concerns with the fuel aspect of the proposed agreement.

1. The fuel adjustment mechanism is meant to be an adjustment. If Nova Scotia Power is effectively paid in advance, what motive do they have to hedge and mitigate the adjustment eventually required?

2. Bearing in mind that the failures of Muskrat Falls are driving the need to purchase more fuel at record high prices, wouldn't prepaying the adjustment essentially reward Nova Scotia Power and further punish ratepayers for the issues related to the management of the Muskrat Falls project?

3. While the need to smooth spiking global coal prices through fuel deferrals is both understandable and necessary, Nova Scotia Power's proposal effectively ignores the newly legislated Bank of Canada interest rate plus 1.75%, setting it instead at Nova Scotia Power's weighted average cost of capital. This enables Nova Scotia Power to earn a return on equity (profit), and effectively turn this fuel deferral into a whole new asset. It has not been adequately demonstrated why this is in the best interests of Nova Scotia's ratepayers. I worry that allowing not only a recovery of the adjustment but also an additional ability to earn an outsized "investment return" on it seems unfair and will likely do nothing to encourage efforts to mitigate the adjustment

Non-Fuel Costs

The 1.8% legislated non-fuel rate cap appears to be used in its entirety in 2023. This was not the intent of the legislation under any reasonable, fair interpretation.

In addition, it appears that another 3.9% rate increase is proposed under the clause for “increased DSM costs.” Since Nova Scotians can reduce their bills through greater efficiency and DSM activity, the Government included in Bill 212 a clause to permit new increases in DSM to be added to rates. However, Nova Scotia Power’s proposal not only includes these new increases in DSM costs (less than 1%) in rates, but proposes to increase rates by an extra 3%, for increases in DSM since 2014, despite this amount having been included in the bills Nova Scotians have paid for almost a decade.

This clearly circumvents the intention of Bill 212, as rates have already incorporated approximately $40 million in DSM costs. It seems these extra funds would effectively flow as a $40 million annual increase in the profits of Nova Scotia Power.

Customer Charges

It appears that some of the 1.8% non-fuel side increase will also be charged as an increase in the fixed monthly Customer Charge (rising from $10.83 to $19.17/month for the residential class), imposed on all, rather than charged out as a cost in the $/kwh rate. While recovering the same amount of revenue from ratepayers, this fixed charge will hit families with a small monthly bill harder, notably renters. These fixed monthly bill increases will also be damaging to those lowering their bills through solar or efficiency.

From my reading, this means that every residential customer automatically has an increase on their monthly bill from $10.83 today to $19.17, for an immediate monthly increase of at least $8.34. Therefore, if you formerly had a monthly bill of $50, it would now rise by $8.34, plus the 8.1% (fuel) hike plus 3.9% (DSM), for a total new bill of roughly $63. For this home, that means a total rate increase of more than 25%. This is unacceptable.

Further Rate Pressures

The settlement contains a storm rider, where Nova Scotia Power is able to recover costs above $10.4 million/year for Level 3 and 4 storms in the years 2023-25. As a result, a major storm could raise rates by another 2%.

This storm rider does not encourage proper maintenance of the distribution grid and seems to allow Nova Scotia power to push climate change risk onto ratepayers, with the result that it could continue to underperform, without taking accountability.

The agreement also ignores the intent of the amendments to the Act under Bill 212, where the 1.8% rate increase was to be committed to much needed reliability improvements for Nova Scotians, and it provides no information on what reliability investments will be made to justify this increase.

In addition, the proposed decarbonization deferral account would absorb undepreciated coal/thermal assets and enable Nova Scotia Power to earn its return on equity on the full amount of assets added to this account, creating another possible increase in rates.

Returns to NSP

The parties agreed to a 9.0% return on equity for rate-setting purposes, which is 0.25% less than the maximum allowed by legislation. However, Nova Scotia Power will actually be allowed to earn up to the maximum allowed by legislation (9.25%).

My reading of this settlement would suggest that Nova Scotia Power has opened multiple avenues to greater earnings: the 3% rate hike from past DSM; equity returns on deferred fuel costs; increased fixed customer charges; and the storm rider.

Intent of Legislation

The entire purpose of Bill 212 was to protect Nova Scotians. On early review, it appears the intent of this agreement is to circumvent this legislation.

Mandate of UARB

Having laid all of this out, I am once again reminded of the mandate of the UARB. It is one we have in common: Protect Nova Scotians. I believe the above-noted points demonstrate that this proposed agreement does not protect Nova Scotians. It is likely to harm them, particularly those lower income Nova Scotians and small businesses.

It is incumbent upon me to raise these concerns with you as I know government's in the past have not expressed those concerns when they perhaps should have. The Muskrat Falls project comes to mind. The fact that Nova Scotians have paid over $500 million for this project with minimal benefit, and no one has been held accountable, is wrong.

It was this Board of the day that approved the contracts and entered the final project into rates.

I find it remarkable that those contracts did not include different risk sharing mechanisms; they should have had provisions for issues in oversight of project management. Nevertheless, it was approved, and is causing significant harm to ratepayers in the form of increased rates. I would ask whom the Board feels should be held responsible for this mess and while it appears that they didn't adequately protect Nova Scotians with foresight in thought, will they step up to protect ratepayers now?

As you are aware, because we are not realizing the benefits of this project, Nova Scotia Power is forced to buy much more coal than was forecast, and at a time when coal is six times its previous market price. If there was proper oversight, it wouldn't have come to this; and at the very least, with the expertise involved of all parties, there should have been foresight to hedge on coal.

We should be holding a microscope to ensure Nova Scotia Power is doing everything they can to mitigate fuel prices. I would encourage you to heed that suggestion.

We respectfully ask that you set aside this agreement and proceed with your deliberations.

Yours truly,

Hon. Tim Houston
Premier of Nova Scotia

Cc: Blake Williams, Nova Scotia Power
Bill Mahody, Consumer Advocate
Nelson Blackburn, Small Business Advocate
Nancy Rubin, Industrial Group and Dalhousie University
Maggy Burns, Ecology Action Centre
Brian Gifford, Affordable Energy Coalition
James MacDuff, Municipal Electric Utilities