

Our File: 100384
October 7, 2014

Ms. Nicole Godbout
Regulatory Counsel
Nova Scotia Power
P.O. Box 910
Halifax, NS B3J 2W5

Dear Ms. Godbout:

Re: Integrated Resource Plan ("IRP") 2014 – Matter M05522/P-884.14

On September 30, 2014, Nova Scotia Power Inc. ("NS Power") circulated its 2014 IRP Draft Report ("Draft Report"). Please accept the following comments on the Draft Report on behalf of Port Hawkesbury Paper LP ("PHP").

General Comments Regarding DSM Levels

At page 8, lines 18-23, NSPI states:

"Some IRP participants object to evaluating on a five-year NPV basis, but NS Power maintains that such evaluation is essential to assessing near-term rate impacts on customers, and thus is critical to the planning process. NS Power's position is further supported by the Terms of Reference, which recommend 'a no regrets strategy that aligns with the Preferred Resource Plan during the first five years of the planning horizon.'"

PHP does not object to the evaluation of the Analysis Results on a five-year NPV basis as part of the overall consideration of the IRP results. As NS Power points out in this excerpt from the Draft Report, one of the important components of the IRP is the development of a "no regrets strategy" that **aligns with the Preferred Resource Plan** during the first five years of the planning horizon.

However, the Analysis Results from the current IRP clearly show that the 50% low DSM case does **not** align with the investments required in the first five years for the most economic resource plans that were modeled. In fact, the only Base Load Candidate Resource Plan with a DSM profile lower than the DSM Base Case (CRP 1-1 FGD) is **significantly more expensive** in the planning and study periods than all of the DSM Base Case Plans in the Base Load scenario. Over the planning period, it is 8% more expensive than the least cost plan, a difference of **\$919 million** (\$12,449,000,000 - \$11,530,000,000, as shown on Slide 23). Over the study period, the low DSM profile case is 15.8% more expensive than the least cost plan, a difference of **\$2,698 million** (\$19,774,000,000 - \$17,076,000,000).

PHP shares the concerns expressed in the memos recently circulated by Rick Hornby, as facilitator, and Synapse, as the Board's consultant, regarding some of the conclusions NS Power has drawn from the modeling results and included in the Draft Report. In particular, PHP agrees with Mr. Hornby regarding the problems of applying the rate effects criterion during the 2015 to 2020 time period as its quantitative metric. It is not surprising that simply reducing the amount of DSM spending in the first five years results in a lower NPV for that approach when only the first five years are considered in isolation. The value in conducting a long-term IRP exercise is precisely in its ability to consider the potential impact that such an approach may have over the long term. In the current circumstances, the Analysis Results show that failing to pursue significant DSM in the first five years of the 25 year planning period is expected to result in materially greater overall costs to serve electricity customers in Nova Scotia than if the Base DSM Case profile (or a higher DSM profile such as the "Mid" Case analyzed by Synapse in its October 3 memo) is pursued.

PHP agrees with Mr. Hornby that the IRP is the correct forum to identify the economic level of DSM to include in the Preferred Resource Plan. While the specific amounts and categories of DSM spending for the 2016-2018 period will be established pursuant to the process set out in the *Electricity Efficiency and Conservation Restructuring (2014) Act*, it is important that the Analysis Results in the IRP are not misconstrued to indicate that lower levels of DSM can be pursued without negative long-term consequences.

The IRP Analysis Results show that a failure to pursue significant levels of DSM in the near term are likely to require more extensive incremental capital spending for capacity at an overall higher cost to NSPI's customers. Such an outcome would result in significant "regrets", particularly if those increased costs could have been avoided by the more economic DSM spending identified in the 2014 IRP. Near-term DSM spending that is significantly lower than the Base Case does not appear to comply with a "no regrets" option.

The IRP is a long-term planning exercise. There is no specific reference to "affordability" in the Terms of Reference, nor is it mentioned in either the 2007 or 2009 IRP Final Reports. It is unclear why the 2014 IRP Final Report should be different in this regard. While affordability of electricity rates in the near term is clearly an important and legitimate concern for all ratepayers, it is a concept that is generally considered as part of rate-setting and related processes, not as part of an IRP. Issues of near term rate impacts should be addressed as part of NSPI's other regulatory processes.

There should be no confusion in the 2014 IRP Final Report that the Analysis Results clearly support the achievement of the Base Case DSM demand and energy savings as a minimum over the long-term, and not a lower amount. In fact, as the analysis in Synapse's memo of October 3, 2014 demonstrates, higher levels of DSM than the Base Case (i.e. the "Mid" Case that was not modeled by NSPI) actually results in the lowest NPV over the planning period. This point needs to be clearly presented in the 2014 IRP Final Report.

Specific Comments on the Draft Report

1. At **page 8, lines 3-6**: "The current IRP process has served to identify a number of resource plans which provide comparable costs and benefits to customers over the long term, but differ significantly in the near term with respect to upward pressure on power rates."

This assertion appears to contradict the IRP Analysis Results, which show that the level of DSM in the short-term has a significant effect on costs and benefits to customers over the long term. The only Candidate Resource Plan with a level of DSM below the Base Case has significantly higher costs, and so it does not provide comparable costs and benefits to customers over the long term. Since the sentence above is not clear regarding the resource plans it is referring to, and is not supported by the analysis with respect to some Candidate Resource Plans such as CRP 1-1, PHP requests that this sentence be removed in order to properly inform the Board.

2. At **page 17, lines 4-6**: "Several plans have emerged that produce similar, 'no regrets' paths for the first 5 years of the Action Plan. In CRPs 1, 2 and 5, there is minimal incremental capital investment required to meet emissions and renewable energy requirements out to 2020. The main variable between these plans is the level of DSM investment required."

For the reasons noted above, PHP does not agree that CRP 1 should be referenced in the context of plans that produce a "no regrets" path for the first 5 years of the Action Plan, since failure to achieve the Base, Mid, or High levels of DSM has been shown to result in significantly greater overall costs over the planning and study periods. In order to properly inform the Board, PHP believes the reference to CRP 1 at line 5 of page 17 should be removed, and the following sentence should be added to the paragraph in order to properly inform the Board:

"Although CRP 1 also contemplates minimal incremental capital investment out to 2020, the lower level of DSM would require significant capital investments to be made post-2020, including a 100 MW PPA, 315 MW NG CT, and a 145 NG CC. In CRP 2, the only capacity addition required post 2020 is a 99 MW NG CT, and there are no capacity additions required in CRP 5."

3. At **page 19, lines 1-2**: "The IRP process has informed NS Power and stakeholders that different levels of DSM investment will produce different cost profiles over time."

PHP believes the addition of the following immediately following this sentence is required in order to properly inform the Board:

"While a lower DSM profile than the DSM Base Case would see lower costs in the near term, the modeling indicates this would result in significantly greater overall costs for customers over the study and planning periods."

4. At **page 42, lines 3-4**: "One perspective is that choosing not to maximize DSM spending leaves an opportunity for load reduction unattained."

PHP requests the addition of the following immediately following this sentence:

"As shown in CRP 1, failure to achieve DSM demand and energy savings would result in a requirement for more extensive incremental capital spending for capacity at an overall higher cost to NS Power's customers."

5. At **page 45, lines 27-28**: "...most plans were similar in NPV over the planning period – most were within 5 percent of the lowest NPV plan."

PHP requests the addition of the following immediately following this sentence in order to properly inform the Board:

“One exception is CRP 1, the low profile DSM case, which is 8% (or approximately \$928 million) more expensive than the lowest NPV plan in the planning period, and 15.8% (or approximately \$2,698 million) more expensive than the lowest NPV in the study period.”

6. At **page 57, line 19 to page 58, line 2**: “The top performing plans from a planning period NPV perspective have similar attributes – they utilize existing coal units to their maximum lifespans, there is no incremental variable generation added and new thermal generation, if any, is natural gas combustion turbines.”

As Mr. Hornby notes, the Draft Report fails to acknowledge that each of those top performing plans include as a resource either a Base level of DSM or a High level of DSM. PHP believes the addition of the following immediately following this sentence is required in order to properly inform the Board:

“They also all assume achievement of Base or High levels of DSM.”

7. At **page 58, lines 15-16**: “The Company feels that the IRP process has identified the appropriate range of DSM to acquire over the planning period from a planning perspective.”

It is unclear from this statement what “range” of DSM the IRP process has “identified”. As noted above, the IRP Analysis Results demonstrate the increased overall costs associated with the pursuit of a lower profile of DSM spending than the Base Case. The Final Report should not imply that the IRP supports or identifies an appropriate level of DSM spending below the Base Case, particularly since there does not seem to be a clear rationale for the selection of a “50% low” case rather than the Low, Base, Mid, and High cases studied in the DSM Potential Study. The analysis in Synapse’s October 3, 2014 memo suggests that a Candidate Resource Plan that includes a Mid level of DSM (i.e. a higher level than the Base Case) is more economic over the planning period.

PHP believes the sentence above must be changed to read as follows in order to properly inform the Board:

“The IRP process has identified the relative cost implications of a range of DSM approaches over the planning period from a planning perspective. The Analysis Results suggest that the Preferred Resource Plan includes, at a minimum, achievement of the Base Case DSM levels.”

8. At **page 60, line 17**: “Pursue cost-effective Demand Response opportunities: ongoing.

PHP requests the addition of the following as part of this bullet point:

“As part of these efforts, NS Power will continue to work with industrial customers such as PHP to explore the opportunities that may be available to ensure that the potential value associated with the use of PHP’s load is considered as part of its evaluation of Demand Response options.”

9. At **page 62, lines 16-17**: “Report to the UARB on the status of the need for flexible resources to integrate additional variable generation in the 10-Year System Outlook Report.”

PHP requests the addition of the following as part of this bullet point:

"In examining the various flexible resources that may be available, NS Power will continue to engage in discussions with industrial customers such as PHP to explore possibilities that may be available in terms of the flexible use of its load and storage capabilities, particularly in the near term prior to the implementation of the Maritime Link and the development of other potential resources that may involve more extended lead time."

10. At **page 68-69**, NSPI summarizes the Regulatory Actions proposed as part of its Action Plan. PHP requests the addition of a third bullet at line 6 on page 69 as follows:

- Given the increased use of the 10-Year System Outlook Report as a reporting document on various issues, this report will be circulated to stakeholders when submitted to the Board, and stakeholders should be provided the opportunity to provide their comments on the report to the Board.

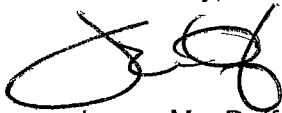
11. At **page 71, lines 15-17**: "Low investment in DSM in the early years carries the risk of missed opportunity to reduce demand and provide immediate fuel cost savings in the near term, while providing extended benefits for the life of the program."

PHP requests the addition of the following immediately following this sentence:

"The Analysis Results demonstrate that failure to achieve DSM demand and energy savings in the early years would result in a requirement for more extensive incremental capital spending for capacity at an overall higher cost to NS Power's customers."

Thank you for the opportunity to provide further comments. We look forward to seeing these comments incorporated into the Final Report. Please let me know if there are further questions or you would like to discuss any of these points.

Yours truly,



James MacDuff

cc: Interested Parties

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