

# Electricity Mandate - General information on Setting Rates for Nova Scotia Power Inc.

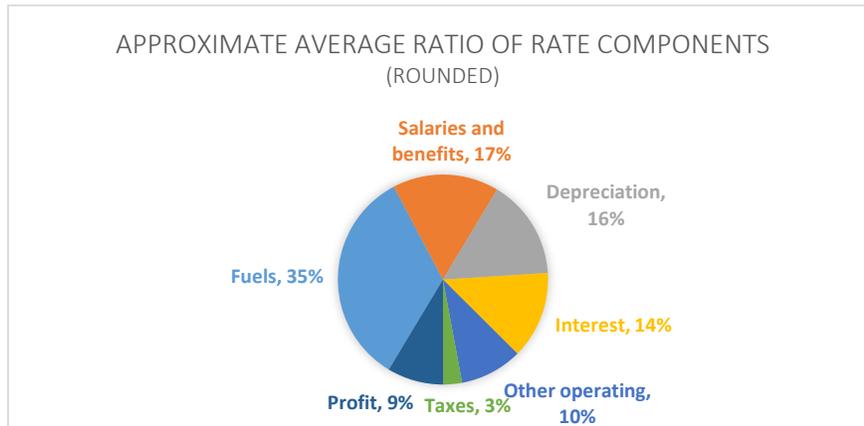
---

## What are utility rates based on?

Utility rates are set in Nova Scotia using the “cost of service” method. This method is intended to set rates at a level that will allow a utility to recover its prudently incurred costs plus a reasonable profit. The total of the costs and profit is referred to as the “revenue requirement”. Put another way, this is the amount that the utility is allowed to recover from all of its various customers.

## What are the costs included in the revenue requirement by Nova Scotia Power Inc.?

The primary components of the revenue requirement currently in rates, are:



The actual formula used to calculate the revenue requirement is as follows:

- + operating costs (fuel, salaries, interest, general expenses)
- + depreciation
- + taxes
- ± any other Board approved costs or deferrals
- + profit [calculated as the value of the “rate base” x the approved rate of return]
- = the revenue requirement

The rate base is the value of all of the approved property, plant and equipment which is currently “used and useful” by the utility in carrying out its business. The rate of return is the approved profit which is currently set as 8.75% to 9.25%.

As rates are set for one or more future periods the calculation of the revenue requirement results in an estimate called the “test year”. The test year revenue requirement is used to set rates for the various classes of customer.

### **How are the costs split up among customers?**

Once the utility's revenue requirement is established it is necessary to assign each class of customers a reasonable share. A "cost of service study" is done from time to time to determine what costs have been caused or created by each class of customer. The revenue requirement share attributable to each rate class is then used to calculate the rates to be paid by customers within the rate class. There are currently 16 different classes of rates (e.g., residential, commercial, industrial, and so on)

Some costs assignments are based on the amount of power consumed (energy charges). Others are based on the demand or maximum amount of power taken at any time (demand charges). Both of these factors affect the cost of providing the service to the different classes of customers. Energy charges are "fixed" in that the rate being charged per kilowatt remains the same regardless of the number of kilowatts used. Demand charges are "variable" and increase as the amount of energy taken at one time increases.

Some costs are only assigned to one class of customer. Each customer class only pays for the costs they cause.

### **How do I know the costs assigned to my rate class are fair?**

A cost of service study is periodically ordered by the Board to confirm that the costs being assigned to each rate class are reasonable. The studies are subject to the same hearing process as other types of rate applications. A Consumer Advocate and a Small Business Advocate are appointed to represent the interests of the residential and small business customers. Large customers or customer groups also typically participate. All parties, including the utility are entitled to present evidence and cross examine witnesses.

### **How much Executive Compensation is included in NSPI rates?**

Executive compensation makes up only about 0.1% of costs in rates. While there are occasional media reports about the amount paid to executives there are limits on how much compensation can be included in rates. Any amount over the limit is paid by the shareholders of the company, not the customers.

Compensation permitted in rates for any NSPI executive cannot be greater than amounts paid by the government of Nova Scotia to its Deputy Ministers.

Emera Inc., NSPI's parent company, is not regulated by the Utility and Review Board. Consequently, amounts paid to Emera Inc. executives are not subject to Board review and do not affect power rates.