

ELECTRICITY MANDATE – BASE COST OF FUEL

What is the BCF?

The Base Cost of Fuel (“BCF”) is an estimate made by Nova Scotia Power Inc. (“NSPI”) related to the cost of fuel required to generate power. Fuel estimates are made through the BCF process, and then variances in the actual fuel cost from this estimate are accumulated in the Fuel Adjustment Mechanism’s (“FAM”) deferral account.

Why is the BCF a standalone proceeding this year?

The FAM process is governed by the Plan of Administration (“POA”) which provides that the BCF can be reset in a General Rate Application (“GRA”) or every second year as part of the FAM adjustment process. The BCF has not been reset since 2014 and a revised estimate is required for 2016. Given there is no GRA for 2016, the BCF is occurring as a standalone proceeding.

How are the fuel estimates determined?

In forecasting its fuel costs, NSPI must comply with the Board approved POA, which outlines the fuel procurement and forecasting process. Further guidelines are provided in the Fuel Manual as well as past guidance from the Board on what is considered prudent and reasonable.

If the fuel estimate is governed by the POA and Fuel Manual why is a proceeding necessary?

Fuel is the largest single element of costs to NSPI. Stakeholders have the opportunity to review and challenge the assumptions and implementation of the methodology driving the forecast and related estimates. Fuel forecasts and costs can vary, as a result of management decisions and estimates, so the BCF proceeding provides an opportunity for stakeholders to vet concerns with fuel costs.

How is this different from the AA/BA rates reset annually?

Each year, as the actual fuel costs vary from the approved BCF rate, NSPI is required to recover or refund the variance. The AA/BA riders are included on your bill as an addition to the energy charge while the BCF is included in the approved energy charge.

What is currently recovered in rates related to fuel?

The BCF is established on a c/kwh basis. The current weighted average BCF is 5.019 c/kwh. This rate varies by rate class with the breakdown provided in Schedule 2b of the FAM Monthly reporting. An update, in the August 2012 Fuel Update, indicated \$450.7 million was built into rates for 2014, this rate has carried through yet load has changed. The actual amount recovered will continue to fluctuate as load deviates from the forecast. Based on the FAM refresh forecast for 2015 NSPI expected to collect \$455 million related to 2015 fuel costs.

Will the BCF reset proceeding result in a rate increase for 2016?

This depends on NSPI's application and the resulting Board decision. If the approved BCF exceeds what is currently in rates, 5.019 c/kwh, then there will be an increase. Conversely, if the approved BCF is lower than what is currently in rates, there will be a decrease.