

## **ELECTRICITY MANDATE – FUEL ADJUSTMENT MECHANISM (“FAM”)**

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### **What is the FAM?**

The Fuel Adjustment Mechanism (“FAM”) is a process established to ensure that only actual fuel costs are recovered by Nova Scotia Power Inc. (“NSPI”) from ratepayers. A significant portion of NSPI’s rates relate to the cost of fuel required to generate power. Fuel estimates are made through the base cost of fuel, and then variances from this estimate are accumulated in the FAM deferral account.

### **How are the fuel costs determined?**

NSPI must comply with the Plan of Administration (“POA”) which outlines the fuel procurement and forecasting process. Further guidelines are provided in the Fuel Manual and other guidance from the Board on what is considered prudent and reasonable.

### **How does the Board ensure NSPI is only recovering prudent costs from ratepayers?**

The Board has a number of tools to monitor NSPI’s compliance with requirements of the FAM and POA. Throughout the year NSPI reports, in standardized monthly, quarterly and annual filings, information related to fuel use, optimization, budgeted and actual costs. Further, NSPI is subject to an Audit of their FAM every second year that covers the prior two year period.

### **What is a FAM Audit?**

To ensure costs included in the FAM are appropriate to flow through to ratepayers, those costs are independently reviewed. The POA outlines minimum audit requirements, which include: testing the FAM formulas, actual fuel and purchased power costs, contracts and management performance. The full scope of the audit is outlined in the POA.

An independent consultant is retained by the Board to complete this audit and identify for the Board any concerns related to processes, controls or transactions.

### **Can the FAM Audit impact utility rates?**

Yes, it can. Any amounts recorded that were not in compliance with the POA or other Board direction are disallowed and not recoverable from ratepayers. Typically, there is a deferral account tracking the outstanding balance related to fuel. Where a disallowance is recorded, this directly reduces the FAM deferral. The cost of the FAM Audit forms a part of the recoverable costs of NSPI.

### **Does the Audit always require a hearing before the Board?**

No, not necessarily. The Board tentatively schedules dates in the event a hearing is needed. If NSPI agrees with the results of the Audit and recommendations of the Auditor, then a formal hearing may not be required. However, NSPI may have different interpretations than the Auditor on some points. The

Board reviews the Audit results and stakeholder evidence or comments and makes a decision related to these differences.

### **Who participates in the FAM Audit process?**

Most formal ratepayer representatives participate in regular stakeholder sessions to stay informed of NSPI's efforts related to fuel procurement. As part of the POA, the Audit includes meetings with these stakeholders prior to finalizing the scope of the Audit. Stakeholders are also invited to submit evidence when there are varied interpretations of the POA or other direction.

Like any other public process of the Board, anyone can apply to participate. Before the process starts, a Notice of Hearing is published and time is given for participants to apply. Typical participants include:

- NSPI
- Consumer Advocate
- Small Business Advocate
- Industrial customers (individually or as one or more groups)
- Municipalities such as Halifax Regional Municipality
- Government departments such as Energy or Environment
- Municipal Electric Utilities of Nova Scotia Co-operative

The Board also may receive letters of comment from interested persons. In addition, members of the public may be given an opportunity to speak during a hearing.

### **Who represents “small” customers in the FAM Audit process?**

Residential customers are represented by the Consumer Advocate and small businesses are represented by the Small Business Advocate. For more information see the FAQs for Consumer Advocate and Small Business Advocate.