Information Note
Natural Resources

Title: Emera's Maritime Link Project application to the Utilities and Review Board (UARB)
Issue: To provide a summary of Emera's Maritime Link Project application to the UARB

Background/Current Status:

- On January 28, 2013 NSPML (a subsidiary of Emera) filed an application with the UARB for approval of the Maritime Link (ML) Project. The specific purpose of the application was to seek approval for the ML Project and a plan to recover all Project costs, including those related to the building and operating of the ML.
- The UARB held hearings and listened to evidence, ultimately rendering its decision on July 22, 2013 prior to the expiry of the legislated 180 day time limit set for the review.

Highlights of UARB Decision

- The Board found that the ML project represented the lowest long-term cost alternative for electricity ratepayers in Nova Scotia, provided that NSPML can access "Market-priced Energy" for purchase in addition to the 20% Nova Scotia Block. The UARB defines Market-priced Energy as energy purchased "either from Nalcor (i.e. as Nalcor Surplus Energy from Muskrat Falls or as energy generated by Nalcor from other sources) or from other sources (including imports over the NS/NB transmission interconnection)..." The Board noted, however, that transmission was constrained with respect to the NS/NB option.
- To address this issue of access to Market-priced Energy, the Board has set a condition on its approval that NSPML obtain from Nalcor the right to access Nalcor Market-priced energy when needed to economically serve NS ratepayers; or provide some other arrangement to ensure access to Market-priced Energy. The Board states that, "without some enforceable covenant about the availability of the Market-priced Energy, the ML Project does not represent the lowest long-term cost alternative for electricity for ratepayers in Nova Scotia."
- The UARB approved the $1.52 billion cost estimate and the $230 million AFUDC (allowance for funds used during construction). The UARB also approved the requested $60 million variance in prudently incurred costs, with additional cost overruns to be approved by the UARB.
- The NSPML requested a debt-equity ratio of 70:30 with flexibility to vary to 65:35 during construction and operation phases of the project. The UARB approved 65:35 movement flexibility during construction, but fixed the debt-equity ratio at 70:30 during operations.
- NSPML also requested a return on equity (ROE) of 9.1% for the 2011-2013 period with an automatic adjustment formula thereafter. The UARB approved a 9% return of equity, within a range of 8.75%-9.25%, with any future ROE adjustment subject to future applications to the UARB.

Summary of UARB Findings

- Section 9.0 of the UARB decision provides a summary of key findings, which are reproduced below for reference:

- Under s. 5(1)(a) of the *Maritime Link Cost Recovery Process Regulations*, the Board must approve the ML Project if the "project represents the lowest long-term cost alternative for electricity for ratepayers in the Province".
- Taking into account all of the evidence, the Board finds, on the balance of probabilities, that the ML Project (with the Market-priced Energy factored in) represents the lowest long-term cost alternative for electricity for ratepayers in Nova Scotia. In the absence of Market-priced Energy, the ML Project is not the lowest long-term cost alternative.
- While the Board finds that the ML Project is the lowest long-term cost alternative, it is not on an overwhelming basis. There are various scenarios, within a range of reasonable assumptions that perform almost on an equivalent basis, or even better in a few cases, than the ML Project. Nevertheless, the Board concludes that over the broadest range of assumptions for the ML Project it is slightly more robust than the various other alternatives. On this basis, the ML Project does edge out other alternatives and is deserving of approval under s. 5(1) of the *ML Regulations*.
- However, the Board remains very concerned with the availability of Market-priced Energy under the ML Project, as presently proposed by NSPML.
- The fundamental assumption which underpins the Application is that NS customers will enjoy a blended rate for electricity which is comprised of a weighted average of the costs reflecting the NS Block and the projected amounts and prices for Market-priced Energy over the 35 year term.
- Until 2041, when Newfoundland and Labrador's Churchill Falls arrangement with Hydro Quebec comes to a conclusion, the availability of Market-priced Energy from Nalcor is an issue of "substantial uncertainty". This leaves NSPI in the unenviable position of having no contractual certainty of obtaining Market-priced Energy from Nalcor. However, NSPML/Emera have accepted no risk as a result of that contractual uncertainty. As they have structured the deal, that risk falls entirely to Nova Scotia ratepayers.
- The Board concludes that the availability of Market-priced Energy is crucial to the viability of the ML Project proposal as against the other alternatives. More importantly, the Board finds that without some enforceable covenant about the availability of the Market-priced Energy, the ML Project does not represent the lowest long-term cost alternative for electricity for ratepayers in Nova Scotia.
- It is the Board's obligation to protect the interests of Nova Scotian ratepayers. More specifically, the Board is required in this proceeding to apply the test under s. 5(1) of the *ML Regulations*. The Board has considered how it should address this significant risk to the viability of the ML Project as against the other alternatives. It could, under the *ML Regulations,* simply reject the Application, but that would not be the responsible result and would not be a productive outcome of the regulatory process.
- Accordingly, the Board directs as a condition to its approval of the ML Project that NSPML obtain from Nalcor the right to access Nalcor Market-priced Energy (consistent with the assumptions in the Application as noted in NSUARB IR-37 and Figure 4-4) when needed to economically serve NSPI and its ratepayers; or provide some other arrangement to ensure access to Market-priced Energy.
- In the Board's opinion, such a condition should not create any practical difficulty because it would simply codify what NSPML asserts is the effect of the arrangement in any case.

It would also confirm what NSPML already states is Nalcor's view of their future relationship.

- This is a simple remedy to the fundamental risk underlying NSPML's Application for approval of the ML Project. If no such condition was imposed, the Board would fail in its regulatory oversight by approving an application that could potentially be commercially disadvantageous to NS ratepayers.

Action Being Taken:

- NR will continue to assess the decision in consultation with Nalcor.

Prepared / Approved by: Natural Resources

22 July 2013

Jul 23, 2013