

NSUARB P-887(7)

NOVA SCOTIA UTILITY AND REVIEW BOARD

**IN THE MATTER OF THE 2016 FUEL ADJUSTMENT MECHANISM (FAM)
PROCEEDING RELATED TO THE ACTUAL ADJUSTMENT (AA) AND BALANCE
ADJUSTMENT (BA) RECOVERY VALUES**

**DIRECT EVIDENCE OF
JONATHAN WALLACH
ON BEHALF OF
THE CONSUMER ADVOCATE**

Resource Insight, Inc.

DECEMBER 1, 2015

1 **Q: Please state your name, occupation, and business address.**

2 A: My name is Jonathan F. Wallach. I am Vice President of Resource Insight, Inc.,
3 5 Water Street, Arlington, Massachusetts.

4 **Q: Please summarize your professional experience.**

5 A: I have worked as a consultant to the electric-power industry since 1981. From
6 1981 to 1986, I was a research associate at Energy Systems Research Group. In
7 1987 and 1988, I was an independent consultant. From 1989 to 1990, I was a
8 senior analyst at Komanoff Energy Associates. I have been in my current
9 position at Resource Insight since September of 1990.

10 Over the past thirty years, I have advised clients on a wide range of
11 economic, planning, and policy issues including: electric-utility restructuring;
12 wholesale-power market design and operations; transmission pricing and policy;
13 market valuation of generating assets and purchase contracts; power-
14 procurement strategies; risk assessment and management; integrated resource
15 planning; cost allocation and rate design; and energy-efficiency program design
16 and planning.

17 My resume is attached as Exhibit JFW-1.

18 **Q: Have you testified previously in utility regulatory proceedings?**

19 A: Yes. I have sponsored expert testimony in 75 federal, provincial, or state
20 proceedings in the U.S. and Canada, including in Nova Scotia in NSUARB P-
21 887(2) and P-887(6). Exhibit JFW-1 provides a detailed listing of my previous
22 testimony.

23 **Q: Please summarize your experience with regard to the Fuel Adjustment
24 Mechanism.**

25 A: I have assisted the Nova Scotia Consumer Advocate in its oversight of the FAM
26 process since full implementation of the FAM on January 1, 2009. During that

1 time, I have participated in FAM technical conferences and meetings of the
2 FAM Small Working Group (SWG) on the Consumer Advocate’s behalf,
3 reviewed and evaluated all FAM reports and FAM-related filings, reviewed
4 material filed in the FAM data room located in the offices of Nova Scotia Power
5 Inc. (NS Power or “the Company”), and assisted the Consumer Advocate in its
6 interventions in various GRA, BCF and FAM proceedings. Finally, I provided
7 direct evidence in NSUARB P-887(2) regarding the FAM incentive mechanism
8 and in NSUARB P-887(6) regarding the allocation of demand-related purchased
9 power costs to the residential class.

10 **Q: On whose behalf are you testifying?**

11 A: My testimony is sponsored by the Nova Scotia Consumer Advocate.

12 **Q: What is the purpose of your testimony?**

13 A: The Consumer Advocate has asked me to comment on the Company’s
14 derivation of the 2016 Actual Adjustment (AA) and Balancing Adjustment (BA)
15 amounts in total and for the residential class. Specifically, the Consumer
16 Advocate has asked me to evaluate the evidence filed by NS Power, along with
17 the Company’s responses to intervenors’ interrogatory requests, to determine
18 whether the 2016 AA and BA amounts for the residential class were derived in a
19 reasonable manner.

20 **Q: What do you conclude from your evaluation of the Company’s evidence
21 and interrogatory responses?**

22 A: Although the procedural schedule did not allow time for a comprehensive
23 evaluation, it appears that NS Power estimated the 2016 AA and BA amounts in
24 total and for the residential class in a manner that is reasonably consistent with
25 the Plan of Administration, the FAM Deferral Settlement Agreement, and past

1 practice.¹ Nevertheless, I have two recommendations regarding the process for
2 estimating the 2017 AA and BA amounts.

3 **Q: What is your first recommendation regarding the derivation of the 2017 AA**
4 **and BA amounts?**

5 A: My first recommendation pertains to the application of 2015 excess non-fuel
6 revenues to the 2015 BA balance. In accordance with the terms of the FAM
7 Deferral Settlement Agreement, the Company reduced the 2015 BA balance by
8 its estimate of excess non-fuel revenues for the first two quarters of 2015 when
9 deriving the 2016 BA amount. Specifically, NS Power reduced the BA balance
10 in March of 2015 by its estimate of first-quarter excess non-fuel revenues and in
11 June of 2015 by its estimate of second-quarter excess non-fuel revenues.
12 According to NS Power’s response to Consumer Advocate IR-4, the Company
13 applied excess non-fuel revenues in this fashion in order to provide “customers
14 with the benefit of receiving the benefit of interest credits on these amounts
15 prior to NS Power determining actual earnings at year-end.”

16 However, according to its response to Liberty Consulting Group IR-1, the
17 Company did not reduce the September 2015 BA balance by third-quarter
18 excess non-fuel revenues, because the third-quarter figure was not publicly
19 available at the time of the 2016 AA/BA filing.² Consequently, when deriving
20 the 2017 BA amount, NS Power will need to reduce 2015 BA balances to reflect

¹ The FAM Deferral Settlement Agreement was approved by the Board in its December 12, 2014 order in M06475.

² According to its response to Nova Scotia Utility and Review Board IR-1, NS Power is prohibited by law from selectively disclosing its estimate of excess non-fuel revenues (e.g., as part of its AA/BA filing) before it is made publicly available. For that same reason, the Company also did not reduce the December 2015 BA balance to reflect its current estimate of fourth-quarter excess non-fuel revenues.

1 third-quarter (and fourth-quarter) excess non-fuel revenues. When doing so, the
2 Company should retroactively reduce the September 2015 BA balance by \$12.5
3 million dollars to reflect its current estimate of third-quarter excess non-fuel
4 revenues.³ The Company should likewise retroactively reduce the December
5 2015 BA balance to reflect the difference between actual 2015 year-end excess
6 non-fuel revenues and NS Power’s estimate of excess non-fuel revenues for the
7 first three quarters of 2015. These adjustments will provide customers with the
8 equivalent “benefit of interest credits” as would have been provided if the
9 Company’s third-quarter estimate had been publicly available at the time of the
10 2016 AA/BA filing.

11 **Q: What is your second recommendation regarding the derivation of the 2017**
12 **AA and BA amounts?**

13 A: I recommend that the procedures for deriving the Actual Adjustment be revised
14 so that the AA is calculated based on twelve months of actual costs, rather than
15 on ten months of actual and two months of forecasted costs. This is not a new
16 recommendation. The Consumer Advocate first proposed this revision at a
17 meeting of the FAM Small Working Group in February of 2012 and the
18 Industrial Group made the same proposal in December of 2014. Subsequently,
19 NS Power described various options for implementing this change at the most-
20 recent Small Working Group meeting in August of 2015.

21 The current procedures have exposed consumers to substantial cost (or
22 credit) deferrals due to deviations between actual FAM expenditures in
23 November and December and the Company’s forecasts of those costs when
24 setting the AA. For example, according to the Company’s response to Liberty

³ The Company provides its current estimate of third-quarter excess non-fuel revenues in response to Nova Scotia Utility and Review Board IR-1.

1 Consulting Group IR-4, NS Power forecasted an under-recovery of about \$7.7
2 million in November and December of 2014 when setting the 2015 AA amount.
3 In fact, there was an over-recovery of \$0.4 million in those two months,
4 resulting in a \$8.1 million difference between actual and forecasted costs for
5 those two months. Consequently, ratepayers paid more than actual costs through
6 the 2015 AA, but will be refunded this difference (with interest) through the
7 2016 BA. The risk of future deferrals could be largely mitigated by calculating
8 the AA using only actual costs.⁴

9 At the August 2015 meeting of the FAM Small Working Group, NS Power
10 presented a viable approach for setting an AA rate that would be effective on
11 January 1 of the upcoming year (as is the case under current procedures), but
12 would be derived based on actual costs for the previous twelve-month period
13 from November through October.⁵ The Consumer Advocate will continue to
14 work with the Company and other SWG participants to fully develop this
15 approach for implementation in 2016.

16 **Q: Does this conclude your direct evidence?**

17 **A:** Yes.

⁴ This risk would not be eliminated because the AA *rate* for the upcoming year would be derived as actual AA costs in the current year divided by forecasted energy sales for the upcoming year. Thus, there would still be a potential for deferrals due to deviations between actual and forecasted energy sales for the upcoming year.

⁵ As a transition year, the 2017 AA would be based on actual costs for the ten months from January through October of 2016.