Presentation to Law Amendments

Nova Scotia Power Rate Hike Restrictions

Public Utilities Act (Amended) – Bill No. 212 – October 19, 2022

Good morning, everyone and thank you for the opportunity it to present to you today. My name is Patrick Sullivan, and I am the President and CEO of the Halifax Chamber of Commerce. The Halifax Chamber is an organization of over 1,800 members or over 68,000 employees, and as part of our strategic plan we work to provide the services our members need, events that will help them learn and we advocate for conditions in the economy that enhance their prosperity. New legislation was proposed on October 19th by the Minister of Natural Resources & Renewables, to make amendments to the Public Utilities Act, to restrict Nova Scotia Power Inc's (NSP) ability to raise rates past 1.8%, over the next two years, with exception of fuel and purchased power.

Many of our members are likely happy that their power rates will not increase dramatically during an inflationary period. In a recent survey from the Canadian Chamber of Commerce Data Lab, Rising Inflation, Recruitment & Retention, and Rising Costs (Debts & Inputs) were all listed as the biggest obstacles that Halifax businesses expect for the next three months. Having low predictable rates for the next two years is one less stress in their near-term operational planning. Despite this, there are many untended consequences of the proposed legislation.

I will list our concerns:

1. The overstepping of the Nova Scotia Utilities and Review Board, an independent body whose mandate includes the regulation of public utilities including NS Power and the province's five municipal electric utilities to set rates and ensuring that consumers receive safe and reliable service at a reasonable price. The Board balances that responsibility with the need to ensure utilities are given a reasonable opportunity to earn a fair return on their investments. Without a reasonable return, investors would not be willing to invest in the utility. The Board determines rates using the cost-of-service method. This method is intended to set rates at a level that will allow a utility to recover reasonably incurred costs plus a reasonable profit. The total of the costs and profit is referred to as the revenue requirement. While several factors are involved in setting a fair and reasonable return, generally the Board sets a rate of return equal to the return investors could expect to receive on an investment of comparable risk elsewhere in the economy. So, what is the point of having this board and mandates if the government can just overstep them and impose whatever rate decision they like?
2. The question that remains unanswered is whether the government will allow NSP to increase their rates significantly after the two-year restriction period? The Bank of Canada forecast that it could take roughly two years to rein in inflation, however, there are many factors domestically and globally that could prolong that battle. Therefore, by the end of two-year restriction period, will the current provincial government allow a significant rate hike approximately seven months before the 2025 provincial election? I will let you draw your own conclusions, but once legislation like this is put in place it is very rarely repealed or rectified later as promised and we feel this legislation would likely follow that path.
3. Concern for the green targets that were laid out in the Environmental Goals and Climate Change Reduction Act. NSP has said that this measure threatens the company's ability to meet legislated greenhouse gas reduction targets that include ending the use of coal to generate electricity and generating 80 per cent of power from renewable sources by 2030. Despite these restrictions, the

Minister of Natural Resources and Renewables, expects NSP to meet their targeted environmental goals. It seems counterintuitive to ask more of NSP (climate goals and storm preparedness) while simultaneously reducing their financial capacity. Beyond simply the environmental consequences, our concern is that companies operating in Nova Scotia may reduce their business activity because the province is not meeting its climate targets.

4. The intervention in the province's established regulatory structure (NSUARB) sends a message to the business community that Nova Scotia is an unpredictable and unstable environment for investment. This is highlighted by the downgrading of Emera Inc. by the S&P Global rating agency. Capital markets and lenders may decide that Nova Scotia is not a reliable place to invest. The rising cost of capital and debt means the utility may have to defer or terminate plans and projects around its climate change initiatives and storm preparedness. Some have also speculated that if Emera is unable to secure the capital needed to participate in the Atlantic Loop, a proposed energy corridor that would connect the four Atlantic Provinces to hydroelectricity from Quebec and Labrador, that the $2 billion of federal funding earmarked for the project could be in jeopardy if the project stalls. The province is sending the wrong signal with this legislation that Nova Scotia is a safe and reliable place for a business to invest in.
5. Finally, we are deeply concerned with a government interfering with a private company's finances despite having a lack of fiscal responsibility themselves. In the most recently published Provincial budget for 2021-22, the government projects a 6.6% increase in operating expenses next year, while suggesting NSP should limit themselves to 1.8% per year for two years after ten years of no nonfuel rate increases. The deficit for this fiscal year is expected to be -$650M and projected to average over -$360M a year for the next three years. Additionally, the projected net debt is forecasted to increase to $22.9 billion by 2025-26. This is an increase of $6.1 billions over a 4-year period or 8.3% a year and will result in a 40% debt to GDP ratio or 10% above the Ivany target of a debt to GDP ratio of 30%. To put it in perspective the provinces total deficit only increased by $2 billion over the past 8 years growing at 1.68% a year over those years. Debt-servicing alone currently accounts for over 5.3% of our provincial budget or $676M. Therefore, should the government be setting fiscal restrictions on a company that has proven to be a stable enterprise while seemingly having no fiscal guardrails of their own?

In summary, although we do have members that are happy about the cap on rates for the next two years, we and they are concerned about the longer-term implications. These implications include:

1. Overstepping the regulatory process by ignoring the decision of the NSUARB
2. Will the government interfere again after the two-year period before an election in 2025
3. The potential impact to meeting environmental and climate change targets, including potentially jeopardizing the Atlantic Loop project.
4. The impact on Nova Scotia's business attraction and opportunities for future investment
5. Issue of credibility from a government interfering with a private company's financials while having a lack of fiscal responsibility themselves.

Thank you very much for the opportunity to present to you today and I would be pleased to take questions.