

**Response to:
The New Brunswick Energy
Commission Public Feedback Document
April 19, 2011**

**Submitted
May 6, 2011
By**



Thank you for the opportunity to provide comments on the Public Feedback Document issued by the New Brunswick Energy Commission.

The Municipal Electric Utilities Association of New Brunswick (“MEUA”) represents the three municipal electric utilities in New Brunswick: Edmundston Energy, Perth-Andover Electric Light Commission and Saint John Energy. Collectively we provide local electricity distribution service to approximately 43,000 customers in our municipalities. In addition, Edmundston Energy owns and operates hydro-electric plants with existing total capacity of 8.2 MW.

Saint John Energy purchases 100% of the power supply for its customers at Standard Offer of Service from NB Power Distribution and Customer Service (“Disco”) and pays a wholesale rate approved by the EUB as part of the same process in which rates are approved for Disco’s retail residential, general service and industrial customers. Edmundston Energy supplies some of its needs from its own generation plants and purchases the majority from Disco at the same regulated wholesale rates that apply to Saint John Energy. Perth-Andover Electric Light Commission purchases its wholesale supply from another supplier.

The MEUA appreciates that the Commission’s comments and recommendations are based on submissions from a wide variety of stakeholders, representing a range of views and degree of knowledge of the energy sector. Once the recommendations move forward to a process of planning for implementation, we urge the Government to provide for the full engagement of industry participants (NB Power, the municipal utilities and independent generators), the EUB and experts within the Ministry of Energy, to reflect in-depth industry knowledge and to develop realistic, cost-effective actions plans that will achieve the desired improvements without unanticipated adverse impacts.

In preparing this submission, the MEUA has reviewed the Public Feedback Document and have focused on the issues and recommendations that we identified as having a direct impact on our utilities, customers and communities. However, we have also included some comments on broader issues with the intention of assisting the process and ensuring that all available facts are taken into account.

For your convenience, our comments follow the order of the Public Feedback Document (the “PFD”).

Situation Analysis

At page 3 paragraph 2, the PFD states: *“The ability of residents and businesses to afford the cost of energy is essential to any successful society and economy. If energy costs are not competitive with other jurisdictions, people and businesses will not be able to establish themselves or remain in the province.”* It then makes specific reference to the issues of industry at paragraph 3: *“The processing sector needs competitively-priced energy to remain viable in a global market.”*

The MEUA is certainly concerned about the effects of energy costs on our customers and communities. These costs are a significant issue to residential customers, businesses and industries. Rising electricity costs will continue to add to the challenges faced by the province’s

energy users. However, in making energy policy, it needs to be acknowledged that many factors contribute to location choices of people and businesses. For example, real estate values, availability of satisfying career opportunities, quality education and health care and friendly, safe communities would be at least as important to New Brunswickers as the cost of energy. For businesses large and small, tax rates, salary rates, availability of a stable and skilled work force, transportation facilities and costs and proximity to both raw materials and markets all represent factors that a business considers when faced with location or operating scale alternatives. The work of building and maintaining New Brunswick's population and economic base must therefore rely on numerous tools, of which energy policy is only one. The subsidization of one customer class moves the cost burden to other classes. Other socio-economic goals such as the creation and/or retention of employment should be the responsibility of government.

Electricity Sector

The first paragraph on page 4 of the PFD says:

“Our high peak demand compared to our base load is explained by the high penetration of electrical heating in the province. The percentage of New Brunswick households that use electricity for heat is much higher at 61 per cent than the national average of 37 per cent. This results in some of our generation plants only being operational a few days a year when needed to produce electricity to cover seasonal peaks. Although these plants only operate a few days a year, we must pay for debt charges, operation and maintenance costs year-round. These costs are passed on to consumers in electricity rates.”

We have two concerns as to the implications drawn from statistics about electric space heating and the use of peaking generation resources.

First, as to electric space heating:

- It is recognized that electric heating contributes to a peak demand in the coldest time of the year, but to imply that it is the sole driver is not correct. All classes of customers contribute to peak demand and this is factored into the applicable rates through a cost allocation methodology that was approved by the regulator more than a decade ago and confirmed in more recent hearings. While it is true that in New Brunswick electric heating is a “peakier” load than, for example, industrial process uses, shifting any type of consumption off the peak would provide a cost saving to all customers only if capacity on the system were constrained.
- New Brunswick is not alone in facing a challenge of seasonality in electricity load shape; however, in most of North America it is cooling, rather than heating that drives peaks and constrains resources. The necessity of peaking assets is well recognized in North America and is not unique to New Brunswick.

Second, as to the cost of peaking generation resources:

- When wisely used, “peaking” generators provide many benefits to an electricity system. Usually a peaking plant is a simple cycle gas turbine, which can be constructed relatively

quickly and at low capital cost per kilowatt of capacity, compared, for example, to nuclear facilities. The part of a peaker’s cost which is high in comparison to other generation is usually the fuel, a cost that varies with actual usage of the plant.

- A peaking plant can be dispatched quickly and taken off line quickly as load levels rise and fall. They are best suited to respond to short peaks in load, and are used in this way whether the system peaks are driven by space heating, summer air conditioning, or any other type of load. It is not unusual on any electricity system for peaking plants to operate fewer than 100 hours a year in total, and the system planning engineers incorporate them into the supply mix for just these reasons. Peaking plants are also useful to meet local supply constraints, and can be a less expensive alternative to additional transmission capacity under those conditions.
- Alternatives to peaking generators in meeting fluctuating load levels would be to purchase generated power at high market prices, or to operate generation for more hours and sell the excess power at surplus power rates to industry. Either of these options would probably raise costs to New Brunswick’s firm service customer classes. Because peaking generators are quick to respond, they also become increasingly necessary as more renewable generation is incorporated into the system. Wind generation in particular has an unpredictable pattern of output, and must be used when the wind blows. A gas turbine generator can support the use of renewables by quickly filling in when the renewable generators are not producing, thus ensuring that customers have electricity available when they need it.

The final paragraph of this section on page 4 makes reference to “*uncompetitive industrial rates*”. New Brunswick industrial rates are the lowest in the Maritime Provinces and are bettered only by those provinces blessed with more abundant energy sources. According to cost allocation studies produced by NB Power, industrial rates recover significantly less than the full cost to serve them, while other classes, principally small businesses and the wholesale class (i.e. municipal utilities and therefore their customers) pay more than the costs to serve them. A solid strategy that could reduce total costs would be welcomed by all New Brunswick customers if it can be found. It should not be concluded that New Brunswick rates are unfair to industry.

The following section of this letter sets out our concerns with specific recommendations and the interpretations of information supporting the recommendations.

Recommendations

Item	Wording Reference or Subject	MEUA’s Comment
1-3	General	The MEUA supports initiatives for joint action in the region, with the objectives of clean, low cost supply and reliable service.
4	<i>“The government should work to increase regional environmental performance and reduce emissions by expanding green and renewable energy generation sources, while</i>	The retirement of fossil fuel units is mainly a concern of Nova Scotia as those in New Brunswick are already fitted with modern scrubber technologies and are the cleanest in the

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	<i>identifying and working towards the retirement of fossil fuel units."</i>	country. The MEUA supports the expansion of green and renewable generation sources, provided that it is undertaken with due consideration for cost impacts and supports the development of a supportive pricing regime for such plants.
7	<i>"The current pricing approach linking the cost of natural gas to the cost of heating oil and electricity removes any benefit associated with market supply and price conditions."</i>	<p>This arrangement keeps natural gas as the lowest cost alternative while the increase in margin to the distributor due to the present low prices for gas should be used to reduce the accumulated debt as intended. The benefit will come in the longer term as the debt is retired.</p> <p>Natural gas powered electricity generation should be considered as a method to take immediate advantage of the availability of gas resources locally.</p>
11-16	Transportation issues	Nowhere in the PFD is there consideration of the impact of electric vehicles. This coming change in the transportation arena will have direct ramifications on energy use in this province including potentially overall load shape and adequacy of transmission and distribution facilities. The MEUA recommends that this be considered within the framework of energy policy.
17	<i>"The government should establish the process for funding energy efficiency programs by having the New Brunswick Energy and Utilities Board approve customer contribution rates based on efficiency program benefits for electricity, natural gas and heating oil buyers."</i>	<p>Energy efficiency programs should be funded by those directly benefitting to the extent that programs will produce savings in the mid-term. Those receiving benefit are the clients of ENB, through loans and grants, and the energy suppliers through diminished fuel costs. Therefore the cost of efficiency programs should be borne and recovered in savings by these parties. Application of a surcharge across all energy users is punitive to those who have already made efficiency investments.</p> <p>If a surcharge is the desired approach then it should be applied equally to every unit of energy consumed independent of customer class. For transparency, this surcharge should be separately displayed on the customer's bill.</p>
18	<i>"The government should legislate the elimination of baseboard electric heat in new</i>	This policy, if implemented, would be extremely onerous on new construction costs. It

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	<i>construction to reduce the winter heating demand peaks and allow future fuel options."</i>	<p>will also have a greater impact on peak electrical demand in the transition period as central heating has less variability than dispersed baseboard heaters.</p> <p>In general, electric heating allows access to all fuel options including hydro, nuclear, wind, biomass and natural gas through their use as primary energy sources for generation. Modern electronic thermostats allow direct control of the heating load via communications with the system operator, thus providing the means to implement load management strategies on the system.</p> <p>It is noted that, at this time, not all areas of the province have access to natural gas as a heating alternative.</p>
22	<i>"The government should direct NB Power to undertake programs that reduce demand at peak periods, including controlling water heaters and other appliances through targeted programming."</i>	<p>The municipal utilities have studied water heater load control and consider it to have high potential as a program to reduce peak demand. Such a program and the resulting bill reductions should be available to customers of the municipal utilities, as well as to customers of NB Power.</p> <p>A barrier for the municipal utilities in proceeding with such programs is uncertainty about the future of the rate structures that currently incents peak reductions. We propose that the business case for these initiatives be supported by agreements assuring the MEUs of cost recovery through this structure or an equivalent substitute.</p>
23	<i>"... establish a second block for electricity billing for residential and general service customers. This second block would have an increased price for electricity to promote reduced consumption and reflect the added cost to NB Power to produce this additional electricity tied largely to heating requirements."</i>	<p>The MEUA has serious concerns about this recommendation which seems to involve implementation of a new rate structure without considering whether the rate meets the criteria for good rate design. The result may be a rate that is not cost-based as incremental peaking energy costs are only fuel related as capacity already exists. In addition, relatively low cost energy is available on the market as gas fired generation sets the price.</p> <p>A block structure applicable to an entire class would result in price increases for any customer</p>

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		<p>whose load was larger than the “typical” class member for any reason. For residential customers, this might affect larger households. For general service, it could result in larger businesses paying a higher average rate than smaller businesses, even if more energy efficient. Correspondingly, if the rates are set to be “revenue neutral”, customers with smaller than typical levels of consumption would receive bill decreases, whether or not they were making efficient use of their electricity.</p> <p>If the key objective is reduction of the peak, load-shifting incentives such as time of use rates or critical peak pricing should also be considered and be applicable uniformly to all customer classes and all types of loads. If a premium price is the desired approach to reduce consumption above a fixed level, then it should also apply to the industrial classes that fail to maintain an 80% load factor.</p> <p>The MEUA proposes that rather than mandating rate design “solutions” at this stage, NB Power should be required to undertake studies, including cost allocation and rate impact studies, for filing with the EUB and review through the existing public hearing process. These studies would then be subject to the accepted principles of cost allocation and rate design and receive the focused input of parties supported by experts in the field.</p>
27	<p><i>“The government should direct NB Power to incorporate all existing hydro-electricity dams in New Brunswick as part of its renewable portfolio to allow comprehensive dispatch to support the overall system with a hydro feed-in tariff.”</i></p>	<p>As mentioned in the introduction to this letter, Energy Edmundston has a small portfolio of hydro generation. This generation was built on a business case composed of a combination of avoided costs of purchased power (i.e. use to supply its own customers) and sale of power into the grid. By dispatching the generator to shave its own peak, Edmundston Energy is able to benefit from its generation capacity by reducing the demand charges that would be payable under NB Power’s wholesale rate. In addition, the MEU is eligible to receive a price per kWh for its generation output sold to the grid.</p> <p>It is our understanding of this recommendation</p>

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		<p>that dispatch of the hydro generators would be turned over to NB Power. On that basis, a generator that is also a load or a municipal utility might not be able to obtain any reduction in demand charges, despite the fact that NB Power would use the generation to manage the peak and reduce costs.</p> <p>The MEUA therefore proposes on behalf of its own members and of any other party that generates wholly or partly for self-supply, that any procurement arrangement with NB Power be structured so as not to result in a transfer of the benefits away from the generator.</p>
30	<p><i>“The government should direct the Department of Energy to develop a centralized source of information for consumers, including Internet sites and demonstration projects. The information should be accessible and user-friendly to help New Brunswick residents be aware of the costs and benefits of various energy options. The Department of Energy should co-operate on this initiative with the many non-governmental agencies involved in the energy sector in the province.”</i></p>	<p>The MEUA concurs that an informed consumer is New Brunswick's best resource in creating a positive energy future for the province. We are pleased to cooperate with the Department of Energy in this initiative.</p>
33	<p><i>“The government should structure the New Brunswick Energy and Utilities Board to be a full-time professional board with a stronger mandate to consolidate expertise, be more efficient and reduce duplication.”</i></p>	<p>The MEUA supports the need for a strong and independent EUB whose members can devote themselves to acquiring and maintaining expertise in the complex arena that is the energy sector.</p>
35	<p><i>“Final authority on rate setting will continue to reside with the government until the board has firm control and oversight of the cost of service in the electricity sector.”</i></p>	<p>The EUB has always had a full and complete understanding of the Cost of Service approach to rate setting. An expert and independent economic regulator is the key to maintaining the confidence of customers, investors and neighboring jurisdictions in the future of rates.</p> <p>The MEUA supports a process through which the EUB obtains proposals and stakeholder input through public hearings focused on the issues of rate setting with the decisions of the EUB to be binding in those matters.</p>
37	<p><i>“The government should create an Office of the Energy Advocate to represent the interests of customers of energy systems...The commercial rate class should be provided</i></p>	<p>The MEUA strongly supports this recommendation which would provide small customers with representation that is expert, continuous and adequately funded. We believe</p>

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	<i>finding to engage a representative for their particular concerns when the energy advocate has a conflict as a result of its representation of residential customers."</i>	that this role is necessary to ensure that the interests of all customer classes are heard in rate hearings and any other stakeholder processes.
38	<i>"The government should ensure that municipal electrical utilities are required to appear before the New Brunswick Energy and Utilities Board whenever they seek a rate increase that would be greater than that sought by NB Power Distribution and Customer Service Corporation."</i>	<p>A requirement to submit to comprehensive regulatory oversight has the potential to impose a very high burden of costs on the municipal utilities, of which the largest has 36,000 customers and the smallest only about 1,000.</p> <p>This requirement would make each utility subject to an annual assessment to go towards the operating costs of the EUB intra-hearing, as well as the costs of hearings which include consulting costs and legal costs and months of work for internal staff. In our view, the cost would be incurred without a specific associated benefit, since there is no reason for concern that municipal utility rates are excessive or unfair, or their service quality inadequate.</p> <p>Regulatory oversight of municipal utilities to the same degree as that imposed on large provincial or investor owned utilities is not generally common among the vast majority of North American jurisdictions. This is because for the most part, and certainly in New Brunswick, the municipal utilities operate in the service of the community and not as a for-profit business.</p> <p>We suggest in the interest of maximum benefit and least cost, that a limited scope of regulation and streamlining mechanisms be developed in consultation between the EUB and the MEUA. The results of the consultation would be to select processes that minimize regulatory lag and burden. Possible mechanisms include:</p> <ul style="list-style-type: none"> • rate hearings triggered when rates exceed those of NB Power (instead of when a rate <i>increase</i> exceeds NB Power, as proposed) and if there are written objections from the community; • a wholesale power cost adjustment mechanism; • written hearings; and • light-handed requirements for the filing of information.

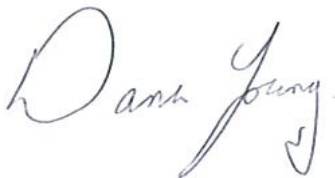
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48	<p><i>“The government should direct NB Power to establish a load shifting benefit-sharing program that would give customers who have the ability to reduce significant loads at peak times a benefit so the system can avoid the use of high-cost generation. Rates would reflect a sharing of benefits between the customer and NB Power.”</i></p>	<p>This is no different than any Demand Management program and should be available to all customers. Access to the benefit should not be dependent on the size of the load shifted. Critical Peak Pricing or Time of Use programs can achieve this goal and be applied to all rate classes.</p> <p>The programs, as applicable to the wholesale class (i.e. the MEUs), should be structured so that customers of MEUs are equally eligible to participate along with direct customers of NB Power, without a net loss to the MEU.</p>

In summary, the MEUA considers that while broad issues and directions can be clarified through this process, specific solutions and implementation strategies need to be developed through in-depth processes. These processes include analysis, testing and decision-making that takes established regulatory and rate-making principles into account. The MEUA is pleased to take part in such processes, along with NB Power, consumers and consumer groups and the proposed Office of the Energy Advocate. The MEUA has confidence that an expert and independent EUB is the best agency to make informed decisions on rate structures, incentive structures and cost allocation.

The MEUA appreciates the efforts of the Energy Commission in compiling the PFD and the specific recommendation and would be glad to provide additional information or insights on request.

We look forward to the final report and to working with other stakeholders.

Yours truly,



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