

SUPPLEMENTAL DIRECT EVIDENCE OF JOHN J. REED

APPENDIX A

NOVA SCOTIA UTILITY AND REVIEW BOARD

**SUPPLEMENTAL DIRECT EVIDENCE OF
JOHN J. REED**

February 15, 2017

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1 ***I. INTRODUCTION***

2 **Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A1. My name is John J. Reed. My business address is 293 Boston Post Road West, Suite
4 500, Marlborough, Massachusetts 01752.

5 **Q2. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 A2. I am Chairman and Chief Executive Officer of Concentric Energy Advisors, Inc.
7 (“Concentric”). Concentric is a management consulting firm specializing in financial and
8 economic services to the energy industry.

9 **Q3. HAVE YOU PREVIOUSLY PROVIDED EVIDENCE IN THIS MATTER?**

10 A3. Yes, I provided evidence on December 16, 2016 as part of the NSP Maritime Link
11 Interim Cost Assessment Application (“Interim Assessment”) on behalf of NSP Maritime
12 Link Incorporated (“NSPML” or the “Company”).¹

13 **Q4. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL EVIDENCE?**

14 A4. The purpose of my Supplemental Evidence is to comment on the analysis that NSPML
15 has filed with the Nova Scotia Utility and Review Board (“NSUARB” or the “Board”)
16 regarding the effects of a two-year delay of the Nova Scotia Block on the costs of, and
17 benefits provided by the Maritime Link Project (“ML Project”). In addition, I will
18 provide a supplemental discussion of the regulatory policy issues related to the timely
19 recovery of the return on and of capital for the ML Project.

¹ NSPML is an indirect wholly owned subsidiary of Emera, Inc. (“Emera”) and an affiliate company of Nova Scotia Power Inc. (“NS Power”).

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II. VALUE OF MARITIME LINK BENEFITS**Q5. HAS NSPML PROVIDED ADDITIONAL INFORMATION REGARDING THE VALUE AND BENEFITS OF THE ML PROJECT?**

A5. Yes. In its Supplementary Evidence that has been filed contemporaneously with my Supplementary Direct Evidence, NSPML has presented further detail on the benefits that availability and use of the ML Project is expected to provide in 2018 and 2019, before the Nova Scotia Block is available from Nalcor Energy (“Nalcor”).²

Q6. HAVE YOU REVIEWED THE BENEFITS TESTIMONY THAT NSPML PROVIDED?

A6. Yes, I have. It reflects many of the same concepts that were presented in my Direct Evidence in this filing.

Q7. PLEASE SUMMARIZE THE BENEFITS THAT NSPML HAS DISCUSSED IN ITS SUPPLEMENTARY EVIDENCE.

A7. NS Power has provided an analysis of four categories of benefits that NS Power customers will realize once the Maritime Link comes online in January, 2018. Those benefits include: 1) exported energy to Newfoundland & Labrador; 2) imported energy from Newfoundland & Labrador; 3) optimization of generation assets; and 4) enhanced reliability. In addition, the Maritime Link will provide access to new sources of supply for NS Power as well as a stronger overall transmission system.

Q8. WHAT ARE THE TOTAL QUANTIFIED BENEFITS THAT NSPML HAS ASSESSED FOR THE MARITIME LINK IN 2018 AND 2019?

A8. NS Power forecasts energy flow on the Maritime Link in excess of 2 TWh between January 1, 2017 and December 31, 2019, with an associated estimated gross value of that energy being in excess of \$120 million.

² NSPML is projecting completing the construction of the ML Project on-time and on budget while the Nova Scotia Block is now scheduled to begin in 2020.

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1 **Q9. HOW DOES THIS NEW ANALYSIS AFFECT THE CONCLUSIONS YOU**
2 **REACHED IN YOUR DIRECT TESTIMONY?**

3 A9. In my Direct Testimony, I noted that a two-year deferral of the delivery of the Nova
4 Scotia Block power may cause a modest increase in the level of front-end cost loading for
5 the ML Project and that it would not be significant when the ML Project is viewed over
6 its entire life.³ I also noted that the project will provide economic benefits even in its first
7 two years of operation that will help offset the replacement power expense because of the
8 delay in delivery of the NS Block.⁴ NS Power's analysis confirms that there are
9 quantitative and qualitative benefits that were not accounted for in my analysis of the
10 front-end loading, which reinforces my earlier conclusions.

³ Direct Evidence of John J. Reed, at 21.

⁴ Direct Evidence of John J. Reed, at 20.

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1 ***III. REGULATORY POLICY DISCUSSION***

2 **Q10. IS IT YOUR OPINION THAT THE ML PROJECT SHOULD BE CONSIDERED**
3 **USED AND USEFUL AS OF JANUARY 1, 2018?**

4 A10. Yes, I believe that in this case the used and useful principle will have been met. As stated
5 in my Direct Evidence, if the Board concludes that the used and useful principle should
6 be taken into consideration in the Interim Assessment, it should apply to the Maritime
7 Link itself, not the broader undertaking of the development of Muskrat Falls or other
8 upstream or downstream activities which NSPML does not control.⁵ As discussed above,
9 NS Power has shown that the ML Project will be used and useful beginning January,
10 2018. The ML Project will be fully energized, is expected to move significant amounts
11 of power, and will provide benefits to NS Power and its customers. The costs of the ML
12 Project will not necessarily match the quantitative near term benefits for the ML Project
13 in the early years. That is a result that has always been expected, as shown in the year-
14 by-year cumulative benefits analysis in the original Application.⁶ This is a typical result
15 of major new power supply projects. Major projects like the Maritime Link have a
16 declining rate base and cost profile, which does not correlate perfectly to the benefits,
17 which typically grow over time.

18 **Q11. DO THE BENEFITS OF A LARGE INFRASTRUCTURE PROJECT IN ANY**
19 **YEAR, ESPECIALLY IN THE EARLY YEARS, NEED TO EXCEED COSTS IN**
20 **ORDER FOR A PROJECT TO BE APPROPRIATELY INCLUDED IN THE**
21 **UTILITY'S RATES?**

22 A11. No. An assessment of the benefits and the costs of large infrastructure projects should not
23 equate to a requirement that there be net benefits in every year of the project in order for
24 it to be granted full return on and of capital and this is true for most large infrastructure

⁵ Direct Evidence of John J. Reed, at 14.

⁶ In the Matter of the Maritime Link Act, S.N.S. 2012 c.9 and the Maritime Link Cost Recovery Process Regulations, N.S. Reg. 189/2012, Maritime Link Project Application, January 28, 2013, Appendix 6.06, p. 2-3.

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1 projects. As noted in my Direct Evidence in this case, the Board approved the ML
2 Project knowing that the cost of the ML Project in the early years could exceed the
3 quantifiable benefits in those same years, and that many of the ML Project's benefits
4 were qualitative, not quantitative. It is important to note that through the life of the ML
5 Project, the quantitative benefits are projected to exceed the costs on a net present value
6 basis, and that the Project will provide many additional benefits.⁷

7 **Q12. DO MOST LARGE INFRASTRUCTURE PROJECTS HAVE LONG LIVES AND**
8 **LENGTHY PAYOFFS THAT INVOLVE A SIGNIFICANT DEGREE OF FRONT**
9 **END LOADING?**

10 A12. Yes, most large infrastructure projects take several years to build and are financed over a
11 20 to 40-year period where the front-end loading of costs is customary. This was
12 specifically considered by the Board when it was evaluating the ML Project.⁸ It is quite
13 common for large infrastructure projects to have a significant degree of front-end loading
14 and then a gradual decrease of net costs crossing over to net benefits at some point during
15 the life of the project.

16 **Q13. IS THERE AN EXPECTATION BY INVESTORS OF LARGE**
17 **INFRASTRUCTURE PROJECTS, INCLUDING THE ML PROJECT, THAT**
18 **REGULATORS WILL ALLOW FULL COST RECOVERY IF THE PROJECT**
19 **HAS MET ITS EXPECTED BUDGET AND SCHEDULE?**

20 A13. Yes, and this is reflected in the Board's order approving the Project. As noted in my
21 Direct Evidence, NSPML was granted a Federal Loan Guarantee ("FLG") for the ML
22 Project that is financed at a low 3.5 percent coupon interest rate and which allows the
23 Project to have a high proportion of debt financing.⁹ Investors in the ML Project as well
24 as in other large infrastructure projects, rely on the regulatory process to ensure that the

⁷ Direct Evidence of John J. Reed, at 17-18. In the Matter of the Maritime Link Act, S.N.S. 2012 c.9 and the Maritime Link Cost Recovery Process Regulations, N.S. Reg. 189/2012, Maritime Link Project Application, January 28, 2013, Appendix 6.06, p. 2-3.

⁸ Decision with conditions, 2013 NSUAR 154, MO5419, July 22, 2013, page 34.

⁹ Direct Evidence of John J. Reed, at 4.

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1 return on and of their investment will be recovered in the manner to which it was agreed
2 at the time a project was approved, if the project owner has met its targets. Anything
3 short of that will not only disadvantage specific projects, but will discourage investment
4 in all types of large utility infrastructure projects in the future, and increase the cost of
5 capital for those projects that are pursued. This concept was well known at the time of
6 the ML Project approval process. Morrison Park Advisors, Inc., (“MPA”) a consultant
7 for the Board, stated that:

8 Emera will contribute approximately \$450 million in equity to the
9 Maritime Link as well as approximately \$390 million for its share
10 of the Labrador Island Link, for a total of approximately \$840
11 million in total equity. A substantial portion of this would likely
12 have to be externally funded, meaning that Emera would issue new
13 securities (equity and/or corporate level debt) to third party
14 investors. In order to induce investors to buy these securities,
15 returns on these securities will have to be competitive with other
16 comparable investments.

17
18 MPA therefore considered the impact of the Project upon Emera
19 by assessing the pro forma impact on the key financial metrics
20 considered important by investors in publicly traded regulated
21 utilities, including earnings per share, dividends, rate base and
22 book value, and growth rates in these types of metrics. MPA
23 assessed these impacts over the five year investment period for the
24 Project and the implied range of returns for shareholders, using a
25 range of assumed normalized trading multiples appropriate for
26 regulated investments of this nature. MPA found that the range of
27 total shareholder returns to be consistent with the regulated returns
28 on equity being considered in the application.

29
30 In our view, returns of these levels will be necessary to attract the
31 required funding for the Project. Returns at a lower level would
32 mean that it would be difficult for Emera to raise the required
33 capital, and make their participation difficult. Since they are
34 expected to merely meet market demands for returns on new
35 capital, rather than exceed them, we consider their planned returns
36 to be commercially reasonable.¹⁰

¹⁰ In the Matter of the Maritime Link Act and An Application by Nova Scotia Power Maritime Link Incorporated for approval of the Maritime Link Project, Evidence of MPA Morrison Park Advisors, Inc., April 17, 2013, at 67-68.

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1

2

MPA understood the challenges faced by Emera of attracting capital for the ML Project.

3

The “market demands” referred to by MPA reflect assumptions by equity investors that

4

effective and fair regulation by the regulator will allow timely recovery of and a return on

5

all of the investments that were prudently incurred. This is particularly apparent in

6

respect of the ML Project given the lower financing and equity thickness parameters

7

supported by the FLG.

8

Q14. WHAT RISKS DOES MPA STATE WERE UNDERSTOOD TO BE BORNE BY

9

RATEPAYERS?

10 A14. MPA notes that the Nova Scotia ratepayers were responsible for the following risks: 1)

11

any delay in the ML Project; 2) prudent cost overruns of the ML Project; and 3) any

12

delay in generation of Muskrat Falls or transmission over the Labrador Island Link or

13

other Newfoundland Labrador transmission assets.¹¹

14

Q15. HAS NSPML EFFECTIVELY MANAGED THOSE RISKS OVER WHICH IT

15

HAS CONTROL?

16 A15. Yes, my review of NSPML’s Direct Evidence and Supplementary Evidence has led me to

17

conclude that NSPML has, to date, effectively and appropriately managed the

18

construction of the ML Project. As a result, NSPML should be entitled to a full and

19

timely recovery of costs.

20

Q16. IN ITS 2013 EVIDENCE, DID MPA DISCUSS THE RISK/REWARD

21

TRADEOFFS FACED BY NS POWER’S CUSTOMERS UNDER THE TERMS

22

OF THE PROJECT’S FINANCING AND RATEMAKING?

23 A16. Yes, it did. MPA noted that NS Power’s customers were accepting the risk of

24

construction delays or operational failures, and that those risks were not abnormal for

¹¹ *Ibid* at 73.

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1 larger transmission and generation projects¹² and that, in fact, ratepayers will “benefit
 2 immediately upon construction by a fundamentally changed position in the electricity
 3 market, and an immediate improvement in its system reliability”.¹³ MPA noted that
 4 Emera was contributing significant amounts of capital for normal market returns, and that
 5 ratepayers were accepting ordinary risks that are associated with new regulated assets for
 6 a price that is consistent with other options.¹⁴

7 **Q17. DO YOU BELIEVE THE ISSUE OF DELAY IN ONE OR MORE SEGMENTS OF**
 8 **THE OVERALL PROJECT AND THE POTENTIAL THAT THE**
 9 **COMMERCIAL OPERATION DATE OF ALL OF THE SEGMENTS MAY NOT**
 10 **ALIGN WAS FULLY CANVASSED IN THE 2013 APPROVAL CASE?**

11 A17. Yes, I do. I have reviewed materials from the 2013 approval case, including the MPA
 12 evidence, transcripts from the hearings in the case and the final Board decision. Those
 13 documents reveal that interveners raised questions regarding a possible delay and/or
 14 misalignment of the commencement of the ML Project and the Nalcor projects.

15 **Q18. DID ANY OF THE EXPERTS SUGGEST SOLUTIONS AS TO HOW THE COST**
 16 **OF A DELAY COULD BE HANDLED?**

17 A18. Yes, MPA stated the following in its testimony:

18 The question arises as to whether or not it is fair for the ratepayer
 19 to be solely responsible for COD risk, and whether or not it would
 20 be unreasonable to apportion the cost of this risk among both the
 21 ratepayer and NSPML. In our opinion, there is scope for the
 22 Applicant to bear some measure of COD risk through a risk
 23 sharing mechanism. Such a mechanism could be structured in the
 24 form of an equity holdback, where NSPML’s regulated return on
 25 equity (i.e. profits) are held back from the revenue requirement
 26 placed on the ratepayer. Such a holdback could start from a
 27 relatively modest base and escalate with time as appropriate. The
 28 idea would not be to transfer all COD risk to the Applicant, but to

¹² *Ibid* at 69.

¹³ *Ibid*, at 70 lines 10-11.

¹⁴ *Ibid*, at.69, lines 13-16 and 28-31.

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1 apportion the risk among both the Applicant and the ratepayer in a
2 manner that reflects, as best it can, the interests of both.¹⁵

3 **Q19. DID THE BOARD RESPOND TO MPA'S SUGGESTION?**

4 A19. Yes, it did. In the NSPML hearing, the Board Chair specifically asked MPA questions
5 about that portion of the testimony. Mr. Walker from MPA stated the following:

6 MR. WALKER: I'm sorry; just before we move off this particular
7 concept, the other point that's probably worth making is that,
8 obviously, Emera has to go out and finance this project in the
9 marketplace. And so the returns it's going to get from the project
10 have to be sufficiently attractive as can actually attract the capital.
11 And I think in our experience when there are risk-sharing
12 mechanisms there has to be a balance.

13 So if there's going to be a penalty in scenarios where the project
14 isn't delivered on time or what have you, if the project is delivered
15 on time there's going to have to be a bonus. So there's going to
16 have to be -- if we were to go down this road of talking about risk-
17 sharing mechanisms, if there's some risk that the Applicant is
18 managing, if they appropriately manage that risk there has to be
19 incentives in place as well. So there has to be -- if there's going to
20 be some downside that's going to be imposed upon the Applicant
21 then there also has to be some upside presented to them as well.¹⁶

22 The Board did not implement the suggested risk sharing mechanism that MPA proposed,
23 which would have provided both positive and negative incentives for NSPML to achieve
24 on-time and on-budget performance for the ML Project. Instead, the Board stated the
25 following:

26 However, the risks related to construction delays remain, as
27 identified by Morrison Park. The Board accepts their evidence that
28 these risks fall entirely on Nova Scotian ratepayers. This is an
29 unreasonable allocation of risk for this project. Accordingly, the
30 Board expects NSPML to prudently manage the ML Project
31 construction timetable in a manner consistent with the construction
32 schedule of the other components of the Nalcor Transactions
33 (including the Muskrat Falls Generation Station, the LTA and the
34 LIL), while remaining mindful of the total impact on costs in order

¹⁵ *Ibid*, at 73 lines 10-19.

¹⁶ In the Matter of the Maritime Link Act and An Application by Nova Scotia Power Maritime Link Incorporated for approval of the Maritime Link Project, MO5419, Transcript at page 2583.

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1 to minimize costs to ratepayers. Further, the Board approves the
 2 accumulation of AFUDC up to and including December 31, 2017
 3 or the in-service date of the Maritime Link, whichever is sooner.
 4 At that point, the Board will, applying the test of prudence, review
 5 the management of the construction risks by NSPML. The Board
 6 will make a decision whether AFUDC will continue beyond that
 7 date based on how NSPML has managed the construction
 8 scheduling within the scope of the ML Project and the related
 9 phases in NL.¹⁷

10 This result established two clear standards for NSPML: first, it needed to prudently
 11 manage the ML Project's construction timetable, while being mindful of customer
 12 impacts, and second, it needed to achieve commercial operation by December 31, 2017,
 13 or provide evidence that it has reasonably managed the construction schedule to justify
 14 continuation of the accumulation of AFUDC beyond that date.

15 **Q20. IN YOUR OPINION, HAS NSPML DONE EVERYTHING THAT THE BOARD**
 16 **ASKED OF IT IN ITS 2013 DECISION?**

17 A20. Yes, to date it has. NSPML has appropriately managed the costs and timing of the ML
 18 Project with that of the Nalcor Transactions. As noted in the Interim Assessment
 19 Application, NSPML contemplated delaying construction of the ML Project to coincide
 20 with the commencement of the NS Block, but realized that revisions to contractor
 21 scheduling and integration arrangements, additional demobilization and remobilization
 22 costs, increased costs of insurance, security and labor, as well as higher financing costs
 23 would result in much higher costs to customers. In its Supplementary Evidence, NSPML
 24 has provided its assessment that this alternative would have increased the Project's costs
 25 by hundreds of millions of dollars. This is consistent with my experience in reviewing
 26 several mega-projects. In the current low interest rate environment, delaying the start of
 27 a project may be cost effective, where the need for the project has been delayed or
 28 diminished. But, the economics of interrupting construction, once it has begun in earnest,
 29 and seeking to recommence the project after a hiatus of one or more years is almost never

¹⁷ NSUAR Decision, 2013 NSUAR 154, M05419, p. 106-107.

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1 economic, and threatens the owner's ability to complete the project successfully, if at all.
2 Upon confirmation of the new Muskrat Falls schedule, NSPML determined that the best
3 course of action would be to move forward with a project that is being well run and
4 managed, minimizing the costs of the ML Project in total. In my opinion, by doing so,
5 NSPML has fully discharged the responsibilities the Board imposed on the Company
6 when the ML Project was approved.

7 **Q21. DID THE BOARD'S APPROVAL OF THE ML PROJECT INFORM**
8 **INVESTORS' DECISION IN REGARD TO THE ML PROJECT?**

9 A21. Yes, it did. The Board's approval of the ML Project assured investors that not only the
10 government and the Project's sponsors were behind the project, but that it had the support
11 of the Nova Scotia regulator as well. Emera, as the direct investor, and undoubtedly
12 Emera's stockholders as the ultimate source of the equity capital, understood the
13 prudence and AFUDC risks, and by virtue of choosing to make an equity investment it
14 can reasonably be inferred that they believed that NSPML could appropriately manage
15 the cost and schedule of the ML Project. It is my opinion that the outcome of those risks
16 has not led to any basis for the Board delaying or denying NSPML's return on and of the
17 capital that it has invested. Since NSPML has properly managed the ML Project's
18 construction costs and schedule, NSPML should be provided with a compensatory return
19 on and of its invested capital, on a timely basis.

20 **Q22. THE BOARD'S FINAL LIST OF ISSUES FOR THIS PROCEEDING SEEKS**
21 **INPUT REGARDING WHETHER NSPML SHOULD BE ALLOWED FULL**
22 **RECOVERY OF ITS EQUITY FINANCING COSTS. WHAT IS YOUR VIEW**
23 **ON THIS ISSUE?**

24 A22. I do not believe that there is any regulatory policy basis, or factual basis, for denying
25 NSPML a full and timely recovery of its equity financing costs as an element of the
26 revenue requirement of the Initial Assessment. Equity financing costs are an essential
27 cost to be included in the revenue requirement of a utility, just like operating costs,
28 interest costs and depreciation. What is often referred to as the utility's "return" or

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1 “profit” is better described as the cost of equity, and is nothing more than the
2 compensation to equity investors for providing an essential element of a utility’s means
3 of meeting its public service obligations. Just as rent is compensation to a building owner
4 for use of that asset, the cost of equity is compensation to the investors for the asset (i.e.,
5 equity capital) that they have provided to the utility enterprise. This position has been
6 endorsed by regulators in the U.S. and Canada, and is a longstanding principle of cost of
7 service regulation.¹⁸ I recognize that equity investors are also the owners of the utility,
8 and bear the ultimate risk of the success or failure of the enterprise, but providing for an
9 allowance of a compensatory cost of equity in the utility’s revenue requirement is the
10 foundation on which equity investors agree to take on those risks and responsibilities. In
11 this context, just compensation for the use of the capital requires that the return
12 opportunity be commensurate with other investments of a similar risk, and that the return
13 be provided on a timely basis. A delayed return can often fail to be compensatory unless
14 care is taken to ensure that the deferral creates no re-investment risk or cash flow risk to
15 achieving the full allowed return by the utility.

16 There have been regulatory decisions in North America that reflect cost of equity
17 allowances in rates that are higher or lower than what is perceived to be the investor-
18 required rate of return. These decisions often reflect a regulator’s desire to incent
19 superior management performance, or to disincent inferior management performance.
20 Where such incentive mechanisms are used, the incentives should be made clear in
21 advance of the performance that is to be judged, should be symmetrical and balanced, and
22 should apply to performance factors that are within management’s control. MPA came to
23 much the same conclusion in its oral evidence when it considered whether some form of
24 incentives or risk sharing was appropriate.¹⁹ It is noteworthy that in the Board’s approval
25 of the ML Project in 2013, no such incentives, other than the traditional test of prudence
26 and a threshold date for commercial operation on or before January 1, 2018, are provided.

¹⁸ Ontario Energy Board, EB-2009-0084, Report of the Board on the Cost of Capital for Ontario’s Regulated Utilities, December 11, 2009, at 16.

¹⁹ In the Matter of the Maritime Link Act and An Application by Nova Scotia Power Maritime Link Incorporated for approval of the Maritime Link Project, MO5419, Transcript at page 2583.

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1 Based on the order approving the ML Project, there is no policy or factual basis for either
2 increasing or decreasing NSPML's equity financing allowance above or below the
3 compensatory cost of equity.

4 **Q23. THE BOARD ALSO SOUGHT INPUT ON THE ISSUE OF WHETHER THE ML**
5 **PROJECT'S DEPRECIATION SHOULD BE REDUCED OR DEFERRED IN**
6 **RECOGNITION OF THE TWO-YEAR DELAY IN THE AVAILABILITY OF**
7 **THE NOVA SCOTIA BLOCK. WHAT IS YOUR VIEW ON THIS ISSUE?**

8 A23. This issue also should be evaluated from the perspective of sound ratemaking principles,
9 which includes reliance on sound accounting principles. Depreciation expense is meant
10 to return to investors (both debt and equity) the original amount of their investment, over
11 the economic life of the assets which were purchased with the investor-supplied capital.
12 It is important to recognize that depreciation is a function of the economic life of the
13 assets, not necessarily the terms on which those assets were financed. By way of
14 example, whether an asset was financed with 10-year debt, or 30-year debt, or by debt
15 which used "sinking fund" amortization or no amortization of principle at all (a balloon
16 maturity) the proper amount of depreciation should still be included in a utility's rates.
17 Depreciation properly commences when the asset's economic life commences, i.e. at the
18 time of commercial operation. For the ML Project, NSPML's Direct Evidence and
19 Supplementary Evidence has made clear that the economic life is expected to commence
20 on January 1, 2018. I see no basis in fact or policy to depart from what are well
21 established regulatory principles governing the return of capital, which match the
22 accounting principles that NSPML, NS Power, the Board and the financial markets have
23 relied on for many years.

24 **Q24. IS IT YOUR POSITION THAT THE BOARD HAS NO CHOICE BUT TO**
25 **GRANT NSPML'S INTERIM APPLICATION FOR ITS INTERIM**
26 **ASSESSMENT AS FILED?**

27 A24. No, I recognize that it is the Board's responsibility to set just and reasonable rates for
28 NSPML and NS Power. In my view, NSPML has put forward a compelling case for its

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1 Application for recovery rates. I recommend that the Board have the following in mind
2 when it sets these rates:

- 3 • NSPML expects to fully achieve commercial operation of the ML Project on time
4 and on budget; this portion of the integrated power supply project is the only
5 portion which was under NSPML or NS Power's control;
- 6 • The ML Project will meet the standards for the commencement of depreciation
7 when it enters commercial operation;
- 8 • The ML Project will meet all of the Board's existing standards for recovery of
9 costs in rates when it achieves commercial operation;
- 10 • The ML Project will clearly provide benefits to NS Power and its customers when
11 it achieves commercial operation;
- 12 • The ML Project supports a broader energy plan that has been adopted for the
13 province of Nova Scotia;
- 14 • The application of traditional ratemaking standards would properly grant NSPML
15 the opportunity to earn a fair return on, and to achieve timely return of prudently
16 invested capital and should not be compromised by the imposition of new
17 ratemaking standards that were not part of the Board's original approval of the
18 investment in the ML Project; and
- 19 • There is no basis for adopting any rate that would cause NSPML or NS Power to
20 experience a disallowance or degradation in their earnings since these entities will
21 have fully and prudently managed their role when the ML Project achieves
22 commercial operation.

23 **Q25. DOES THIS CONCLUDE YOUR EVIDENCE?**

24 A25. Yes, it does.