2007 **NSUARB-P-886**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: The *Public Utilities Act,* R.S.N.S. 1989, c.380 as amended

IN THE MATTER OF: An Application by Nova Scotia Power Incorporated for Approval of Certain Revisions to its Rates, Charges and Regulations

RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-1: **Provide a list of all fuel contracts for any period including 2007 that NSPI has entered into, showing**

a. the fuel type,
b. the quantity or quantities,
c. the pricing terms, and
d. the date contracted or committed.

Response IR-1: Please see Confidential Attachment 1 for solid fuel and Confidential Attachment 2 for natural gas, HFO and LFO.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA **REDACTED**

Question IR-2: **Provide the contract between NSPI and EVA for services that resulted in the testimony included in the NSPI 2007 rate case filing at pp. 14 through 37, including the date when EVA was contracted to provide testimony on 2007 fuel prices. If EVA was contracted to provide information on 2007 fuel prices before NSPI knew it was going to file a rate case, please state when EVA was so contracted.**

Response IR-2: NSPI retains EVA to supply expert fuel related advice including the development of Rate Case evidence testimony, through a standing retainer relationship. Please refer to Confidential Attachment 1 for a copy of the purchase orders (contract) for 2006.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-3: **With respect to the EVA testimony please state**

a) when NSPI received its first draft of the testimony, and

b) when NSPI first received any estimates from EVA regarding any fuel price forecast for 2007.

Response IR-3:

a. EVA began drafting potential evidence for NSPI in the first quarter of 2006. A preliminary draft of evidence was provided to NSPI in June 2007.

b. EVA provides continuous guidance to NSPI on fuel prices and fuel markets.

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TO: NSPI

FROM: CA

Question IR-4: **With regard to the relationship between "prompt" fuel prices and futures prices EVA describes as "contango" (Figure 2.3.5), please state when in 2006 NSPI was first aware that a contango situation had developed. Please describe the timing with as much precision as is possible.**

Response IR-4: As shown in Figure 2.3.5, the contango in the market became pronounced in mid-April. NSPI monitors the indices on a daily and weekly basis and was aware of a growing divergence between current and future prices. The low sulphur bids received by NSPI in May 2006 confirmed that the market was in contango.

Also of note, the contango became pronounced when 2006 prompt prices fell and disappeared by the end of the summer when prompt prices rose. In other words, whether the market is in contango or backwardated often has to do with the current market conditions.

By way of comparison, the same data provided in Figure 2.3.5 are provided below for the same period one year earlier. The only time the market was backwardated during this period was in February and March 2005 when 2005 pricing was very high and it was backwardated only with respect to 2007.

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NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: The *Public Utilities Act,* R.S.N.S. 1989, c.380 as amended

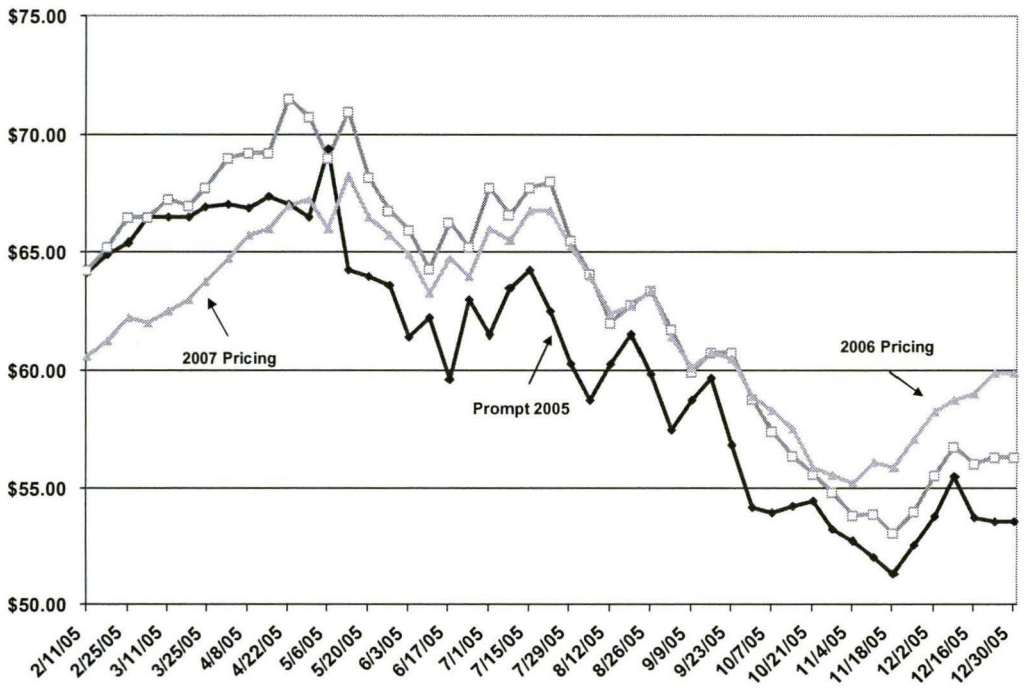
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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Response IR-4: (cont'd)



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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA **REDACTED**

Question IR-5: **Provide, on a confidential basis if necessary, Excel or comparable spreadsheets containing the source data for Figures 2.3.4 through 2.3.10 from the EVA testimony.**

Response IR-5: Please refer to Confidential Attachment 1.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-6: **Identify the "regulatory constraints" that were a barrier to engagement of external candidates for fuel procurement positions at NSPI, per EVA's testimony at page 35.**

Response IR-6: The recruiter believed the position was difficult to fill for a number of reasons including location, size of organization, regulatory environment, and small pool of qualified candidates. The fuel procurement activities in a regulated utility are subject to regulatory review and requirements, as opposed to non-regulated or merchant purchases.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-7: **To what extent, if at all, have NSPI fuel procurement decisions in 2006 been affected by considerations of timing related to the potential hiring of fuel procurement personnel?**

Response IR-7: NSPI's fuel portfolio development and fuel procurement decisions have not been affected by timing related to the potential hiring of fuel procurement personnel.

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TO: NSPI

FROM: CA

Question IR-8: **In Docket P-883, please confirm that NSPI testified in effect that the fuel forecasts assumed in the Cost of Service Studies filed in response to IR SEB 1-a and 1-b appeared "to be fairly close." (Transcript September 5, 2006, Q. 673-674.) Please confirm that the fuel forecasts assumed in the COSS runs filed in response to IR SEB 1-a and 1-b were $402,807,000 and $458,310.000 (from Exhibit 4, line 1, column 1). If those assumed forecasts are not correct, kindly provide the fuel forecast amounts used in the two COSS runs referenced.**

Response IR-8: NSPI testified that it believed that the ELIIR-2 blended cost in 2007 would be in the range of $59 to $63/MWh.

The $402,807,000 figure from P-883 SEB IR-1a represents fuel costs to be allocated to ATL customers. This figure excludes fuel costs allocated to BTL customers and it excludes purchased power costs. The comparable figure in SEB IR-1b is $452,807,000.

The overall fuel costs referenced in P-883 SEB IR-1a and 1b were $434 million and $484 million. These are the costs that were used to estimate the potential ELIIR-2 rate during P-883.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-9: **Identify the fuel forecast assumed in the calculation of the ELIIR-2 rate pursuant to the Board Order in P-883. To the extent if at all that it is different from the fuel forecast filed in this docket, please estimate what the ELIIR-2 rate would have been had it been calculated based on the fuel forecast filed in this docket.**

Response IR-9: The fuel forecast assumed in the calculation of the ELIIR-2 rate, from Board Order P-883, was based on 2006C, including combustion turbine fuel costs, for a total of $434.1 million (including purchased power). The fuel forecast for the 2007 Rate Application is $498.7 million (including purchased power).

The ELIIR-2 tariff was not selected for use in 2007 by either Stora or Bowater and will not be in use. Both customers have selected the ELI 2P-RTP rate proposed. Please see response to UARB IR-74 for the 2007 ELI 2P-RTP proposed rate.

See also response to UARB IR-48.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-10: **Provide a copy of the contract between NSPI and its agent for sales of gas off-system, including the basis for compensation of the agent.**

Response IR-10: NSPI does not have an agent for sales of gas off-system; NSPI sells its gas to third parties directly.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-11: **The Bank of Canada, at http://www.bankofcanada.ca/ en/rates/ can_us_close.html, shows monthly closing rates for Can$/US$ ranging from a high of $1.1937 on November 14, 2005 to a low of $1.0983 on June 12, 2006. The monthly closing rate has been below 1.18 November 2005, and has been between 1.11 and 1.13 since April 2006. In light of these factors, please explain NSPI's forecast of a 1.18 ratio of the Canadian dollar to the US dollar for 2007 (Direct Evidence at 61). Please include in your answer the derivation of the blended rate of 1.19 on 70% of NSPI's 2007 dollar requirement.**

Response IR-11: The 70 percent referenced in NSPI's evidence should have read 80 percent.

NSPI's average foreign rates are developed as follows:

	(in millions)	
2007 USD Requirement	$376	
Forecasted USD proceeds from long-term receivable	($104)	
Net USD requirement	$272	
Hedged (see CA IR-11 Attachment 1)	$228	$1.1853
Unhedged	$44	$1.1325
Total	$272	$1.1764

The unhedged requirements were forecasted using the average 2007 forecasts provided by the major banks. Please refer to CME IR-17.

Nova Scotia Power
2007 FX Hedges

Date Entered	USD Amount	Rate	CAD Amount
15-Apr-2004	$1,600,000.00	1.36570	$ 2,185,120.00
15-Apr-2004	$1,700,000.00	1.36380	$ 2,318,460.00
15-Apr-2004	$1,600,000.00	1.36570	$ 2,185,120.00
15-Apr-2004	$1,700,000.00	1.37230	$ 2,332,910.00
01-Jun-2005	$5,000,000.00	1.23270	$ 6,163,500.00
01-Jun-2005	$5,000,000.00	1.23240	$ 6,162,000.00
01-Jun-2005	$5,000,000.00	1.23230	$ 6,161,500.00
01-Jun-2005	$5,000,000.00	1.23120	$ 6,156,000.00
01-Jun-2005	$5,000,000.00	1.23070	$ 6,153,500.00
01-Jun-2005	$5,000,000.00	1.23000	$ 6,150,000.00
01-Jun-2005	$5,000,000.00	1.22930	$ 6,146,500.00
01-Jun-2005	$5,000,000.00	1.22880	$ 6,144,000.00
01-Jun-2005	$5,000,000.00	1.22860	$ 6,143,000.00
01-Jun-2005	$5,000,000.00	1.22810	$ 6,140,500.00
04-Aug-2005	$1,300,000.00	1.19590	$ 1,554,670.00
04-Aug-2005	$9,000,000.00	1.19460	$ 10,751,400.00
04-Aug-2005	$10,000,000.00	1.19400	$ 11,940,000.00
04-Aug-2005	$7,500,000.00	1.19190	$ 8,939,250.00
04-Aug-2005	$9,300,000.00	1.19060	$ 11,072,580.00
04-Aug-2005	$9,900,000.00	1.18970	$ 11,778,030.00
04-Aug-2005	$13,200,000.00	1.18880	$ 15,692,160.00
04-Aug-2005	$9,000,000.00	1.18770	$ 10,689,300.00
04-Aug-2005	$4,700,000.00	1.18690	$ 5,578,430.00
04-Aug-2005	$7,300,000.00	1.18680	$ 8,663,640.00
04-Aug-2005	$9,000,000.00	1.18680	$ 10,681,200.00
04-Aug-2005	$3,300,000.00	1.18650	$ 3,915,450.00
31-Mar-2006	$10,000,000.00	1.15854	$ 11,585,400.00
31-Mar-2006	$10,000,000.00	1.15360	$ 11,536,000.00
31-Mar-2006	$10,000,000.00	1.15290	$ 11,529,000.00
31-Mar-2006	$5,000,000.00	1.15315	$ 5,765,750.00
31-Mar-2006	$6,697,541.00	1.14979	$ 7,700,765.67
31-Mar-2006	$2,607,001.00	1.15120	$ 3,001,179.55
31-Mar-2006	$5,000,000.00	1.15033	$ 5,751,650.00
28-Apr-2006	$3,674,647.00	1.10650	$ 4,065,996.91
30-May-2006	$5,000,000.00	1.08330	$ 5,416,500.00
30-May-2006	$5,000,000.00	1.08300	$ 5,415,000.00
31-May-2006	$5,000,000.00	1.08760	$ 5,438,000.00
31-May-2006	$5,000,000.00	1.08539	$ 5,426,950.00
31-May-2006	$5,000,000.00	1.08375	$ 5,418,750.00
	$228,079,189.00		$269,849,162.12
	FX banking charges		$ 500,000.00
	Total Cost		$270,349,162.12
	Total USD		$228,079,189.00
	Average FX Rate		$ 1.1853

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-12: **Identify any expense items budgeted for 2007 that do not exist in 2006, or which are not expected to exist in 2008 at approximately the same level as in 2007.**

Response IR-12: Assuming the reference is to 2006C, all expense items budgeted for 2007 also existed in 2006 with the exception of new regulatory amortization (S21 taxes and Q1 2005 tax deferral), year three phase in of depreciation rates and increased pension costs. All expense items budgeted for 2007 are expected to exist in 2008, with the exception of new initiatives as detailed in UARB IR-44 and escalation cost factors as discussed on pages 92-93 of the Direct Evidence.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-13: **Identify any revenue items forecast for 2007 that did not exist in 2006, or which are not expected to exist in 2008, at approximately the same level as in 2007.**

Response IR-13: Revenue items forecasted for 2007 also existed in 2006 and are expected to exist in 2008. The level of revenues for 2008 will reflect approved rates and the 2008 load.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-14: **NSPI seeks inclusion in rates fuel costs it does not recover as a result of the operation of the ELIIR-2 RTP. Please show where in the P-883 proceeding NSPI sought this or similar provisions for cost recovery.**

Response IR-14: It was apparent to all participants in P-883 that NSPI strongly opposed the 2P-RTP rate as proposed by SEB. As well as having many other problems, the proposed rate did not allow NSPI to recover the actual cost of serving these customers.

By its September 28, 2006 Decision (NSUARB-NSPI-P-883), the Board created the ELI 2P-RTP, a different rate than the 2P-RTP proposed by SEB or any other party. The Board has stated its intention that "the debits and credits for load shifting are intended to be cost neutral to other parties and so should not factor into setting the revenue requirement for ATL customers[1]". The Board seeks to ensure that NSPI not under-recover its fuel costs, or that SEB not over-pay for electricity.

NSPI's request for a true-up mechanism in this Application is fully consistent with the Board's intentions. The true-up will ensure that all parties are treated fairly. The 2P-RTP customer should receive the benefit of real cost savings, and both the Company and its other customers should be held financially harmless to the operation of the 2P-RTP rate. Absent the true-up other customers will ultimately bear any shortfall between real cost savings and credits paid to ELI 2P-RTP customers.

NSPI accepts the ELI 2P-RTP and wants it to work properly and well for both NSPI and all customers.

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[1] NSPI 2006 ELIIR-2, NSUARB-NSPI-P-883 Decision, September 28, 2006 , page 53, paragraph 148.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-15: **Is it NSPI's position that the allowance by the Board of NSPI's request to defer Q1 2007 fuel charges constitutes a determination that such fuel costs should be recovered from consumers by inclusion in the 2007 revenue requirement calculation? If so, please provide a copy of the Board letter, identifying the language that NSPI states provides such a determination.**

Response IR-15: NSPI is not proposing to recover the deferral of incremental Q1 fuel costs in its 2007 revenue requirement. The 2007 revenue requirement includes NSPI's forecasted fuel expense for the 12-month test year.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-16: **Identify what rate making principle supports recovery of costs incurred prior to the effective date of the rate increase applied for.**

Response IR-16: As a cost of service utility with an obligation to serve, NSPI is entitled to recover its prudently incurred costs of service. The *Public Utilities Act* provides:

> 45 (1) Every public utility shall be entitled to earn annually such return as the Board deems just and reasonable on the rate base as fixed and determined by the Board for each type or kind of service furnished, rendered or supplied by such public utility, provided, however, that where the Board by order requires a public utility to set aside annually any sum for or towards an amortization fund or other special reserve in respect of any service furnished, rendered or supplied, and does not in such order or in a subsequent order authorize such sum or any part thereof to be charged as an operating expense in connection with such service, such sum or part thereof shall be deducted from the amount which otherwise under this Section such public utility would be entitled to earn in respect of such service, and the net earnings from such service shall be reduced accordingly.
>
> (2) Such return shall be in addition to such expenses as the Board may allow as reasonable and prudent and properly chargeable to operating account, and to all just allowances made by the Board according to this Act and the rules and regulations of the Board. *R.S., c. 380, s. 45.*

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA **REDACTED**

Question IR-17: **NSPI seeks the opportunity to include in its 2007 revenue requirement costs that have not yet been specifically enumerated, including**

a. DSM,
b. Point Tupper Marine Terminal rate basing,
c. Glace Bay amortization changes, and
d. three items of potential O&M cost increase related to the NSPI response to storm management requirements - vegetation management, call-overflow, and relay testing. For each of these items, please provide the best estimates possible of the likely amount of costs for which recovery is likely to be sought, the highest and lowest amounts for such costs, and the time when the costs will be known, to the best of NSPI's ability to estimate at this time.

Response IR-17:

a. Please refer to UARB IR-51d. NSPI is not able to estimate when the costs will be known, as it is dependent on a subsequent Board decision.

b. NSPI is not requesting that the Point Tupper Marine Terminal be included in the 2007 rate base.

c. [redacted]

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TO: NSPI

FROM: CA **REDACTED**

Response IR-17: (cont'd)

d. Please refer to UARB IR-51d. NSPI is not able to estimate when the costs will be known as it is dependent on subsequent Board decisions.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-18: **Does Dr. Morin's estimate of the risk premium appropriate to NSPI take into account any of the following:**

a. the utility's use of a forward test year,
b. the company's request to update its future test year with DSM, Pt. Tupper Marine Terminal rate basing, changes in the Glace Bay amortization schedule, and items of O&M increase related to storm response,
c. the request to include 1Q 2007 deferred fuels in revenue requirements, or
d. the request to include recovery of any short-falls in net revenue requirements from operation of the ELIIR-2 RTP? Does Dr. Morin agree that each of these represents a form of protection of NSPI against a risk of earnings reduction?

Response IR-18: Total investment risk results from a multi-dimensional blend of several factors, including demand risks regulatory risks, financial risks, and size. The demand risk component can in turn be disaggregated into sub-factors, including concentration of demand, customer mix, and service territory economics. The regulatory risk factor can also be disaggregated into micro-factors such as test year, cost deferrals, and regulatory lag. It is difficult to quantify the exact impact of any given factor, such as business risk, on the company's total risk, let alone the impact of sub-factors and micro-factors. Investors and bond rating agencies examine a number of qualitative and quantitative factors before rendering a risk decision, that such factors are considered both individually and collectively.

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TO: NSPI

FROM: CA

Response IR-18 (cont'd):

a. The use of a forward test year is not considered a form of protection, although the use of a historic test year would tend to increase regulatory risks. A future test year has been assumed by Dr. Morin.

b. The inclusion of costs in a test year Forecast is not considered a form of protection; it is simply part of the regulatory process. Dr. Morin's assessment assumes inclusion of all prudent amounts in the test year forecast.

c-d. The denial of the opportunity to recover costs would increase the perception of regulatory risk. Dr. Morin has not assumed such a denial in his assessment.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-19: **In reference to Figure 4.22 of the Direct Evidence, NSPI shows that O&M costs will be increasing by $14.8 million from 2007 to 2008. Please explain the variation in O&M costs from 2006 to 2007 to 2008, including an explanation of the significant increase forecast from 2007 to 2008.**

Response IR-19: Please refer to Appendix B of the evidence for an explanation regarding variances in OM&G costs from 2006 to 2007. Please refer to UARB IR-44 for an explanation regarding variances in OM&G costs from 2007 to 2008, as well as an explanation of the increase in the forecast from 2007 to 2008.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-20: **Please provide the NSPI load forecast for 2007 assuming that DSM is implemented along the lines of the company's DSM proposal and associated budget.**

Response IR-20: The inclusion of DSM as part of the IRP, with its timetable, precludes the possibility of implementation of the Company's proposal in a timeframe which would deliver the anticipated year one DSM effects in 2007.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-21: **In reference to Appendix F, the Load Forecast, at p. 30, the detail of the residential load forecast algorithm, please explain the column CHDD. If this refers to heating degree days, please explain why the HDDs have increased over time, and are forecast to increase over time.**

Response IR-21: Customer Heating Degree Days (CHDD) is a variable in the residential model which represents the growth in space heating load. It is based on the estimated number of customers with electric space heat, multiplied by the annual heating degree-days (HDDs). The model assumes normal weather, so forecast HDDs remain constant. The number of customers with electric space heat is forecast to increase.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-22: **With respect to residential time of day rates, please explain the allocation of the revenue requirement to the three time periods, with particular attention to the peak period. Would NSPI agree that a higher differential of rates between on peak and off peak than is reflected in its rate design would produce a greater shift of load from peak to off peak? If not, why not?**

Response IR-22: The residential time of day (TOD) rates are related to the energy charges of the standard residential rate class (non-TOD). The TOD group of customers is small and is not modeled as a separate class in the Cost of Service Study (COSS).

In 1996, when the rate was established, the rate components were set as:

Shoulder = non-TOD residential rate
On-peak = 2 x non-TOD residential rate
Off-peak = 0.5 x non-TOD residential rate

In 1998, in order to achieve greater acceptance of the TOD pricing by customers, the on-peak charge was lowered to a level 44 percent higher than the non-TOD residential rate. Since then, all components have been increased by the average residential rate increases approved by the Board.

Once total revenue requirement from the overall residential sector is determined (documented in Section 9.3.1 of NSPI's Application), all residential energy charges, excluding the base charges[1], are increased

[1] Base charges have been exempted from changes since the Board's decision on the Generic Rate Design Hearing of June, 2003

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IN THE MATTER OF: The *Public Utilities Act,* R.S.N.S. 1989, c.380 as amended

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Response IR-22: (cont'd)

across-the-board by the same percentage such that the revenue requirement from these two classes combined is achieved. The revenue contribution of the TOD class in each of the three time periods results from this process.

It is not clear that a higher differential between on- and off-peak rates would produce a greater shift. Customer acceptance of the higher initial on-peak charge was low. The on-peak charge would need to increase or the off-peak charge would need to be reduced, all else being equal. Increasing the on-peak charge would reduce customer adoption of the tariff. Decreasing the off-peak charge would not recover the costs of serving load on the rate. As more load is shifted to off-peak periods, the value of shifting diminishes.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-23: **Identify all information, in addition to that set out in the Application, in the possession or knowledge of NSPI dealing with anticipated or projected costs of fuels for the year 2007 and beyond.**

Response IR-23: Please refer to Liberty IR-41 for a list of publications that deal with anticipated or projected costs of fuels.

Please refer to CME IR-34 for external studies that deal with anticipated or projected costs of fuels.

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: The *Public Utilities Act,* R.S.N.S. 1989, c.380 as amended

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-24: **In relation to Figure 2.2, identify all information relating to the NSPI's Fuel Cost Per MWh for the year 2008 and beyond.**

Response IR-24: NSPI respectfully suggests the information for 2008-2010 is not relevant to establishing the 2007 test year revenue requirement. The fuel forecasts considered by NSPI in establishing the 2007 revenue requirement are available for viewing at NSPI offices.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-25: **In relation to Figure 2.3.1, identify all information relating to the price of West Texas Intermediate for August 2006 and beyond. Please provide an updated Figure from July 2006 to the most current date possible.**

Response IR-25: Please refer to Liberty IR-63.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-26: **In relation to Figure 2.3.3, identify all information relating to the price of Henry Hub Natural Average Monthly Gas Prices for August 2006 and beyond. Please provide an updated Figure from July 2006 to the most current date possible.**

Response IR-26: Please refer to Liberty IR-63.

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: The *Public Utilities Act,* R.S.N.S. 1989, c.380 as amended

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-27: **In relation to Figure 2.3.4, identify all information relating to the Prompt API Pricing for August 2006 and beyond. Please provide an updated Figure from July 2006 to the most current date possible.**

Response IR-27: Please refer to Liberty IR-63.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-28: **In relation to Figure 2.3.5, identify all information relating to Prompt Pricing versus the Forward Price Curves for AP12 for August 2006 and beyond. Please provide an updated Figure from July 2006 to the most current date possible.**

Response IR-28: Please refer to Liberty IR-63.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-29: **In relation to Figure 2.3.6, identify all information relating to the price of Petroleum Coke for August 2006 and beyond. Please provide an updated Figure from July 2006 to the most current date possible.**

Response IR-29: Please refer to Liberty IR-63.

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: The *Public Utilities Act,* R.S.N.S. 1989, c.380 as amended

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-30: **In relation to Figure 2.3.7, identify all information relating to the price of West Texas Intermediate for August 2006 and beyond. Please provide an updated Figure from July 2006 to the most current date possible.**

Response IR-30: Please refer to Liberty IR-63.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-31: **In relation to Figure 2.3.8, identify all information relating to the price of Henry Hub Natural Gas prices for August 2006 and beyond. Please provide an updated Figure from July 2006 to the most current date possible.**

Response IR-31: Please refer to Liberty IR-63.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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IN THE MATTER OF: An Application by Nova Scotia Power Incorporated for Approval of Certain Revisions to its Rates, Charges and Regulations

RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-32: **In relation to Figure 2.3.9, identify all information relating to the price of Petroleum Coke Prices for August 2006 and beyond. Please provide an updated Figure from July 2006 to the most current date possible.**

Response IR-32: Please refer to Liberty IR-63.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-33: **In relation to Figure 2.3.10, identify all information relating to International Coal Prices for August 2006 and beyond. Please provide an updated Figure from July 2006 to the most current date possible.**

Response IR-33: Please refer to Liberty IR-63.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-34: **In relation to Figure 2.7, identify all information relating to the price of HFO for 2008 and 2009. Please provide an updated Figure to the most current date possible.**

Response IR-34: NSPI respectfully suggests this information is not relevant to establishing the 2007 test year revenue requirement. The fuel forecasts considered by NSPI in establishing the 2007 revenue requirement are available for viewing at NSPI offices.

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: The *Public Utilities Act,* R.S.N.S. 1989, c.380 as amended

IN THE MATTER OF: An Application by Nova Scotia Power Incorporated for Approval of Certain Revisions to its Rates, Charges and Regulations

RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-35: **In relation to Figure 2.8, identify all information relating to the price of LFO for 2008 and 2009. Please provide an updated Figure to the most current date possible.**

Response IR-35: NSPI respectfully suggests this information is not relevant to establishing the 2007 test year revenue requirement. The fuel forecasts considered by NSPI in establishing the 2007 revenue requirement are available for viewing at NSPI offices.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-36: **In relation to Figure 2.9, identify all information relating to the price of Natural Gas for 2008 and 2009. Please provide an updated Figure to the most current date possible.**

Response IR-36: NSPI respectfully suggests this information is not relevant to establishing the 2007 test year revenue requirement. The fuel forecasts considered by NSPI in establishing the 2007 revenue requirement are available for viewing at NSPI offices.

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IN THE MATTER OF: The *Public Utilities Act,* R.S.N.S. 1989, c.380 as amended

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-37: **In relation to Figure 2.12, identify all information relating to solid fuel costs for 2008 and 2009. Please provide an updated Figure to the most current date possible.**

Response IR-37: NSPI respectfully suggests this information is not relevant to establishing the 2007 test year revenue requirement. The fuel forecasts considered by NSPI in establishing the 2007 revenue requirement are available for viewing at NSPI offices.

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IN THE MATTER OF: The *Public Utilities Act,* R.S.N.S. 1989, c.380 as amended

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-38: **In reference to the Operations Review described at section 4.2 of the Application, please provide a copy of the Terms of Reference for the review.**

Response IR-38: Please refer to Attachment 1.



Consulting Services
Review of NSPI
Operations, Management and General Expenditures (OM&G) and Operations

Terms of Reference

September 2006

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Appendix "A" - OM&G Review excerpts (Sections 6.7 and 14.13) from the NSUARB Decision, March 10, 2006.

1 Nova Scotia Power Overview

Nova Scotia Power Inc. is a fully-integrated, electric utility operating in a traditional regulated environment. It is a wholly owned subsidiary of Emera Inc. (TSX-EMA). The company supplies over 97% of the generation, transmission and distribution of electrical power to 460,000 customers in Nova Scotia. NSPI owns 2,293 megawatts (MW) of generation, fuelled by a mix of:

- coal, petroleum coke (55%)
- oil and natural gas (27%)
- hydro, tidal and wind (18%)

2 Objective and Background

It is the objective of NSPI to enter into a consulting arrangement with a Service Provider to perform a detailed examination of NSPI's organizational structure, its level of OM&G expenditures, and any other pertinent areas which may come to light, with a view to determining whether cost savings and operational efficiencies can be achieved.

As part of its 2006 Rate Application, NSPI proposed increased investment in its operations and administration expenses. In responding to this aspect of the application, NSPI's regulator, the Nova Scotia Utility and Review Board (UARB), expressed its desire for an operations review to examine organizational efficiencies at NSPI.

NSPI recognizes that opportunities exist for continuous improvement in administration and operation of the company. On a regular basis, NSPI seeks out such opportunities and implements operational improvements where appropriate. NSPI also recognizes the benefit of an independent evaluation of its operating efficiency that includes comparative benchmarking with appropriate industry standards.

In its March 10, 2006 Decision, the UARB acknowledged efforts by NSPI management to contain expenditures. It also concluded that a critical examination of NSPI's organizational structure would be a timely exercise. The Board directed NSPI to retain an outside consultant to undertake an operations review, and to file terms of reference for this review no later than May 31, 2006. Relevant OMG excerpts from the Board's Decision are included in Exhibit "A".

3 Scope

a) The Board has directed that... "an operations review be carried out on NSPI's operations. The review shall encompass a detailed examination of NSPI's organizational structure, its level of OM&G expenditures, and any other pertinent areas which may come to light, with a view to determining whether cost savings and operational efficiencies can be achieved".

b) The consultant must have expertise in utility operational and organizational structure including in depth knowledge and experience of best utility practices and with electric utility management in North America. The consultant should be fully versed in those operational and organizational structures which have proven both effective and ineffective.

c) The consultant will be required to perform a detailed examination of NSPI's organizational and operational structure, and of NSPI's current level of OM&G expenditures (including those expenditures on contracted out third party goods and services) with a view to determining whether cost savings and operational efficiencies can be achieved. In addition, the consultant must be alert to other pertinent areas in which additional cost savings and operational efficiencies can be achieved.

d) Based on the consultant's examination, as set out above, and based on the consultant's years of demonstrated experience and expert judgement, the consultant will provide specific recommendations concerning those areas of organizational and operational structure, including the OM&G expenditures, where improvements, cost savings and operational efficiencies can be achieved.

While, the consultant should also consider best utility practices and bench marking comparisons when determining the specific recommendations to be made, the consultant should bear in mind that the primary focus of the examination is to provide recommendations concerning improvements, cost savings, and operational efficiencies which can be achieved.

e) In reviewing the OM&G levels of expenditures, the consultant should include consideration of those OM&G expenditures specifically discussed in the Board's decision of March 10, 2006.

f) Advise NSPI Management: The consultant will work with NSPI to incorporate its recommendations for improved efficiencies. This could involve adding, removing or modifying existing organizational structures.

g) The consultant will deliver a written report of its activities and recommendations.

h) Prior to preparation of its final written report, the consultant will provide a draft report to the Board for its review.

Key specific deliverables, due no later than July 31, 2006, include:

Comprehensive examination of NSPI's Operational and Organizational Structure:

a) Identification of areas where improvements can be achieved, and areas where cost savings and operational efficiencies can be achieved. The recommended improvements should also cover the areas of organizational, operational and management structure.

b) Overall assessment of NSPI in the context of utility best practice.

c) Recommendations as to how best to modify the management structure to achieve the improvements

d) Specific discussion and recommendations (if applicable) in the following areas:

- NSPI's overall OM&G expenditures
- Industry Benchmarking in specific OM&G areas
- Reasonable level of OM&G spending for NSPI, given this point in the process
- Appropriate level of contracting out to third party suppliers of goods and services
- Specific review and advice about NSPI:

    a. Finance and Accounting
    b. Information Technology
    c. Human resources
    d. Procurement
    e. Executive Management
    f. Legal and Regulatory Affairs
    g. Other areas, excluding fuel costs, that contribute in a significant way to OM&G

e) Recommendations on how to best proceed with the implementation of the advice recognizing:

- There may be a range of cost-effective options; and
- There must be an appropriate arrangement for recovery of increased costs, whether temporary or long term.

Following completion of the project the consultant may be asked to participate in stakeholder technical conferences, assist in preparatory work for related regulatory hearings and/or provide expert testimony about the consultant's work and report.

4 Technical Inquiries

Greg Blunden, General Manager, Finance
greg.blunden@nspower.ca
Telephone: (902) 428-6639

5 Questions and Addenda

The Consultant is urged to carefully examine these Terms of Reference immediately and contact NSPI at once for any items that require clarification. All clarifications deemed by NSPI to be material will be issued as written addenda. No verbal interpretation provided by NSPI shall be valid and only written addenda shall bind NSPI.

In the event of a conflict between the Terms of Reference and any addenda, later issued addenda shall govern to the extent of any such conflict.

6 Ownership of Documents and Freedom of Information

All documents submitted to NSPI become the property of NSPI and are subject to disclosure to the Nova Scotia UARB and stakeholders. By submitting a report the prospective consultant thereby agrees to disclosure of its contents. NSPI's normal business practices will be observed in handling proposal materials. Any information the prospective consultant considers confidential because of its proprietary nature should be marked as "confidential", and will be subject to appropriate consideration.

7 Confidentiality of Information

Information obtained from NSPI as a result of participation in this project is confidential and must not be disclosed without authorization from NSPI.

8 Nova Scotia Utility and Review Board (NSUARB)

The consultant must be aware that NSPI is a regulated utility. NSPI's decisions with respect to any project may be affected by the decisions of the NSUARB as they affect NSPI. All activities shall be subject to decisions, orders or approval of the NSUARB as may be necessary or appropriate.

Terms of Reference

NSPI Operational Review

Appendix A

Excerpts from NSUARB decision, March 10, 2006

6.7.3 Findings

[1] In past decisions, the Board has expressed concern about the control of OM&G expenses by NSPI. In its 2002 rate decision, the Board stated:

> [133] The Board has significant concerns with respect to whether NSPI has reduced corporate expenses to the fullest extent feasible and whether there are adequate controls on spending.
>
> [134] The Board's authority in this area is found in Sections 42(2) and 45(1) and (2) of the Act which are set out earlier in this decision. The difficulty faced by the Board is that there is simply insufficient information available to determine whether the expenses outlined in Appendix 1 of Exhibit N-1 are appropriate to be charged to ratepayers and are as low as prudently possible. NSPI is requesting ratepayers to bear these and other costs through a significant increase in electricity rates. It is, therefore, incumbent on the utility to satisfy the Board, through the public hearing process, that ratepayers' money is wisely and frugally spent. No such assurance is evident from the information which has been filed.
>
> [135] Further, the Board is concerned that NSPI's internal budgeting procedures are not sufficiently thorough to ensure expenses are as low as possible.
>
> ..
>
> [136] The Board believes that it is incumbent on NSPI management to be able to demonstrate that it has made every effort to operate on a cost efficient basis when it seeks to increase electric rates in Nova Scotia. Intervenors have raised valid questions concerning certain expenses. NSPI has not provided an adequate response. As a result, the Board is not satisfied that NSPI management has made every reasonable effort to eliminate unnecessary expenses.
>
> [137] Further, the Board understands that a "benchmarking" process is utilized by NSPI in setting overall spending levels. While this is a useful procedure, it should not be used to the exclusion of other methods of determining the appropriate level of expenses, including a careful and exhaustive review of NSPI's operating expenses in an endeavour to ensure that it is operating as efficiently as possible.
>
> ...
>
> [140] The Board's concern in this regard goes beyond the present filing which projects NSPI's 2002 test year expenses. It appears from this rate proceeding that while overall OM&G costs have not increased appreciably in the six years since the last rate hearing, certain corporate expenses have increased significantly. The Board notes that there are

no studies, evidence of internal management reviews, or details of cutbacks on OM&G expenses on file with the Board. The Board believes there is a pressing need to demonstrate that cost reductions at NSPI affect the higher levels of the company as well as lower levels.

[141] In view of the Board's concerns in this regard, the Board has determined that NSPI shall undertake a detailed review of the current level of OM&G expenses and submit a report to the Board which demonstrates that NSPI is operating as cost-efficiently as possible. After examining the report, the Board will determine if a further study is required. If further action is required, the Board may appoint an independent consultant to perform the study.

[2] During his testimony during this hearing, Mr. Huskilson reiterated the approach taken by NSPI in the review of its costs:

Q. (Merrick) ... earlier about steps that you were taking to cut costs and expenses. Do you agree with that as a component --that that is part of what should be -- that that is a component that should be in every application for a rate increase, that is, that the company has -- puts forward the steps that it has taken to minimize its own expenses and also to minimize the requirement for increased rates? Do you agree that that should be, from here on in, a component of an application?

A. (Huskilson) Well, I would say is I think the -- especially the operating maintenance and general costs, but generally all of the costs of the company need to, I think, have two things happen. No. 1, I think they have to have a regular and solid review, which is something that we clearly did, in my view, in the last rate hearing. As well, the company has worked to report appropriately on those costs and continue to report on those costs. I don't know if that's something that we have to do every time we come before a rate -- a revenue requirement review, and the reason I say that is because there are ways to look at whether the company is doing a good job in that area, things like bench marking and looking at where the company sits against other companies who do the same kind of work. So I think there are mechanisms in which that can be reviewed. But I would say that it is very important that the costs are reviewed in great detail on an ongoing basis and that there is a special review at appropriate time frames.

(Transcript, December 1, 2005, pp. 3219-3220)

[3] The Board questioned the Finance Panel about the Company's review of OM&G costs in the context of NSPI's request for a large rate increase:

Q. (Chair) NSPI is coming to the Board seeking a rate increase, an average rate increase of 13 percent. This is after a rate increase last year. So would you agree that in this situation NSPI has a special responsibility to review all areas of operating costs to see whether or not any cost efficiencies can be achieved?

A. (Blunden) Yes, I would agree with that.

Q. Was that review done in this case?

A. (Blunden) Yes. I mean, NSPI has always focused on reducing its costs to levels -- to the most appropriate level possible. I believe we continue to do that. I think our OM&G report filed a couple of years ago and updated for the last rate application would demonstrate that. There had been a number of individual

expense items that seemed to be occurring at this point in time, whether it's the regulatory climate, whether it's through customer expectations on storm response, or changing pension expense, but from our perspective the costs are reasonable and reflective of what's needed to run the business in 2006.

Q. But the result is that after you've done this review your requested rate increase still averages 13 percent. So my question was how did you go about reviewing the -- and let me just back up a bit. When I mentioned operating expenses, the only operating expense we're talking about is what's in OM&G, is that correct? There's no other operating expenses per se. I'm not talking about capital expenditures, I'm talking about operating expenses.

A. (Blunden) Yes, I understood you to mean OM&G expenses, correct.

Q. Yes. So in view of that, then, how did you go about reviewing the OM&G expenses to see whether or not there could be additional savings achieved in order to reduce a requested rate increase? OM&G has increased by, I think, somewheres around 29 million dollars, which is about a 15 percent increase in this year. So I understand that some are higher by necessity, but the question is how did you go about reviewing the different categories of operating expenses to see whether or not you could make cuts or other savings?

A. (Blunden) Certainly as part of our annual business planning process and as part of this rate application we always look at our operating expenses and determine, you know, certainly a starting point from baseline perspective whether we think they're reasonable, and that certainly has not changed. When we look at, in particular, how difficult this year has been from a financial perspective, our baseline OM&G costs are where they're at. The increases that are before the Board at this hearing are -- and are very specific, they're specifically related to pension expense. An example would be as we change the methodology coming up with the discount rate last year, which has had the effect of reducing pension expense by 2.7 million dollars as an example, or they're tied to initiatives like demand side management or storm response. So from a baseline perspective despite load growth -- and our operating expenses may be characterized slightly different than they would be in some companies. Our operating expenses include the variable labour at our plants and our linesmen and those kinds of things. You know, load is up, customers are up, inflation is up and the fact that we've been able to keep our baseline OM&G flat over quite a number of years I think speaks volumes to how well we manage our baseline costs.

Q. But I think what I was trying to get at is whether or not you had -- you went through an internal exercise to look at these expenses and say -- recognizing that from a benchmarking perspective they may be in line with other utilities, but that really wasn't my question. My question was did you have an internal exercise to go through these expense items line by line, item by item, to see whether or not you could, by reorganizing or restructuring some of your internal departments, whether or not you could achieve additional savings in view of the significant rate increase that you're requesting the Board to approve?

A. (Blunden) And I think the only thing I can probably respond to that is it's not -- we didn't undertake a different exercise but it's kind of part of how we do business on a daily basis. Certainly, at least quarterly, if not monthly, we would meet or a couple of us would meet with some of the senior managers in all the operating units and review their year-to-date spending and where there's possibilities for cuts. Anything that we believe is possible to do we have reflected in our 2006 rate application in terms of cost reductions.

Q. I'm not sure that that completely answered my question. Was there an exercise or an activity, a specific activity, internal, to look at these expenditures to see where cuts could be made from -- obviously you can't cut if service is going to be impaired, that's a given, but in any entity there are always some areas where it's a worthwhile exercise to look at these things and take a hard line on the expenditures to see whether or not -- what would happen if you did eliminate some or reduce some or make certain restructuring in your operation. Was that type of an exercise carried out?

A. (Blunden) It has been over a number of years, and what I mean by that is that approach has been taken to all of our OM&G costs over the last number of years, which is why we've been able to maintain them to where they're at. To the extent of where future opportunities, we have not identified -- any opportunities that we have identified have been reflected in this application and we have not been able to identify any additional opportunities that wouldn't have a significant impact on service.

Q. Was anything done in connection with this rate application that was different than what you've been doing every year for the last few years? And, to be fair, I recognize that OM&G has been discussed extensively in the past, but this is somewhat of a different situation. And so was anything done differently this time than what you do every year?

A. (Blunden) No. Again we believe the approach we have taken is an appropriate one and we maintain that approach.

(Transcript, November 30, 2005, pp. 2725 - 2730)

[4] With respect to PWC's suggestion that NSPI should provide multi-year forecasts of projected OM&G spending levels, Mr. Blunden questioned the merit of such an exercise:

A. (Blunden) We do not do detailed OM&G forecasts multi-years out, that's correct.

Q. (Deveau) In terms of PriceWaterhouseCoopers, however, they believe that you should, shouldn't you, because they say at page -- if you refer to page 16, starting at line 4:

> "We believe that it would be prudent for NSPI to provide in support of future rate cases detailed five-year forecasts of OM&G costs. The review of such forecasts, we believe, would increase overall transparency and allow the Board to see the quantification of certain forward-looking plans and programs including..."

And just -- obviously DSM is in there and regulatory costs are in there as well, isn't that right?

A. (Blunden) Yes.

Q. And just further on that point -- and this is arising, I think, from questions that Mr. Merrick and Mr. Mahody asked you in terms of cost-efficiency programs – wouldn't such projections into the future for OM&G costs -- wouldn't they provide a valuable tool for assessing cost-efficiency in the management of NSPI in terms of OM&G costs? And I suppose my final question is, do you agree with

PriceWaterhouse's recommendation that such projections should go five years in advance? Sorry, five years into the future.

A. (Blunden) If I could direct you to our rebuttal evidence, on page 84, we -- our intention was to respond to the suggestions made by PriceWaterhouseCoopers. In isolation we believe three-year forecasts or multi-year forecasts of OM&G by themselves is not overly relevant because -- and there's a whole list of things that influence that, whether it's load growth, changes in the regulatory environment, pension expense, those kinds of things. For any of our planning purposes, unless we know of the specific change in an area of our OM&G, we have found over time that increasing it by inflation for management purposes is a reasonable proxy only because a number of the other line items have a much greater likelihood of changing more materially, for example, fuel expense.

Q. But that's not the case in this year, is it, because this year the increase [for OM&G] is quite significant?

A. (Blunden) Yes, and some of the increases that we're experiencing -- and whether it be increased pension expense because of changing discount rates or incremental costs that have been, you know, I guess, the results of storm hearings and those kinds of things -- would not have been things that we would have been able to forecast three years ago. So, those would be examples of multi-year forecasts in OM&G that in isolation wouldn't necessarily be overly relevant.

Q. So, is what you're saying that you don't believe that three or five-year forecasts are helpful at all in assessing expenses into the future?

A. (Blunden) I think in areas where you believe there are going to be step changes in some of your operating costs I think they can be useful, but they are just forecasts. We tend to believe that a more appropriate evaluation of our operating cost structure is looking at where we're at today versus where other utilities are, what our trend has been, so focusing more on actual results and informal comparisons as opposed to future forecasting.

(Transcript, November 30, 2005, pp. 2708-2711)

[5] Following its review of the evidence in this hearing, the Board continues to be concerned about the magnitude of the increase sought by NSPI for OM&G expenses, particularly since it accompanies NSPI's request for a very significant rate increase. In its application, NSPI is seeking an increase of $27.8 million in OM&G costs for the 2006 test year. This represents a 15.3% increase over the 2005 Compliance Filing. Moreover, OM&G spending is not insignificant, representing 24.5% of the total projected cost of operations.[1]

[1]NSPI Application, Exhibit N-2, Appendix A, Table 2 ($209.8 M of $858.0 M)

[6] While the Board accepts NSPI's evidence that the Company's management endeavours to contain line expense amounts, it is not persuaded that NSPI has taken sufficient steps to critically examine its entire operation to determine the most efficient use of its resources. In the opinion of the Board, any large entity should regularly undertake such a review, without reference to, or reliance upon, traditional or existing operational groups. Such a review should focus on developing the most efficient organizational structure as the Utility moves into the future.

[7] Accordingly, the Board directs that an operations review be carried out on NSPI's operations. The review shall encompass a detailed examination of NSPI's organizational structure, its level of OM&G expenditures, and any other pertinent areas which may come to light, with a view to determining whether cost savings and operational efficiencies can be achieved. NSPI is directed to prepare the terms of reference for the operations review and submit them to the Board for approval by May 31, 2006. The terms of reference shall also set out the procedures for identifying and selecting the firm or person who will perform the operations review.

[8] PWC has recommended that future rate applications contain detailed five year forecasts of OM&G costs. The Board accepts this recommendation and directs NSPI to include detailed five year forecasts of OM&G costs in all future rate applications.

14.13 Operations Review

[703] In past decisions, the Board has expressed concern about the control of OM&G expenses by NSPI. Following its review of the evidence in this hearing, the Board continues to be concerned about the magnitude of the increase sought by NSPI for OM&G expenses, particularly since it accompanies NSPI's request for a very significant rate increase.

[704] Accordingly, the Board directs that an operations review be carried out on NSPI's operations. The review shall encompass a detailed examination of NSPI's organizational structure, its level of OM&G expenditures, and any other pertinent areas which may come to light, with a view to determining whether cost savings and operational efficiencies can be achieved. NSPI is directed to prepare the terms of reference for the operations review and submit them to the Board for approval by May 31, 2006. The terms of reference shall also set out the procedures for identifying and selecting the firm or person who will perform the operations review.

[705] The Board directs NSPI to include detailed five year forecasts of OM&G costs in all future rate applications.

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: The *Public Utilities Act,* R.S.N.S. 1989, c.380 as amended

IN THE MATTER OF: An Application by Nova Scotia Power Incorporated for Approval of Certain Revisions to its Rates, Charges and Regulations

RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-39: **In reference to the Operations Review described at section 4.2 of the Application identify the date when the Operations Review of NSPI's OM&G is to be completed and identify the present stage and status of the Operations Review.**

Response IR-39: The operations review is expected to be carried out between November 15, 2006 and January 15, 2007. The results of the review are expected to be filed with the UARB before the 2007 Rate Hearings.