P-886 ORIGINAL N-2(d)

Nova Scotia Utility and Review Board

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

- and -

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

NSPI IR RESPONSES

CA 40 – 75

CME 1 – 46

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Nova Scotia
Utility and Review Board

Volume 4

November 20, 2006

Redacted

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 **REDACTED**

Question IR-40: **In reference to the Operations Review described at section 4.2 of the Application, identify the consultant performing the review of NSPI's OM&G costs, including information concerning the consultant's expertise and experience with such reviews.**

Response IR-40: The operations review will be carried out by Accenture. Accenture is a well known and respected management consulting firm. NSPI selected Accenture based on their experience, together with the breadth and depth of their industry knowledge and experience. Additional information regarding Accenture's qualifications can be found in Confidential Attachment 1.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-41: **In reference to the Operations Review described at section 4.2 of the Application, identify the extent to which the consultant performing the review of NSPI's OM&G costs will make comparisons of various measures of cost efficiency between NSPI's costs and those of similarly situated companies.**

Response IR-41: Please refer to CA IR-38 Attachment 1.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-42: **In reference to the Operations Review described at section 4.2 of the Application, identify the extent to which the consultant performing the review of NSPI's OM&G costs will do trend analyses of NSPI's historic and forecast costs.**

Response IR-42: Please refer to CA IR-38, Attachment 1.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-43: **In reference to the Operations Review described at section 4.2 of the Application, identify the extent to which the NSPI consultant performing the review of OM&G costs will use any of the following criteria, either for comparison purposes or for trend analysis purposes:**

a. Transmission Operations, Maintenance and General (OM&G) costs per mile of transmission;
b. Distribution OM&G costs per mile of distribution;
c. Transmission OM&G per kWh;
d. Distribution OM&G per kWh;
e. Percentage of outside work orders completed per month;
f. Training expense per customer service agent;
g. Customer service costs per day;
h. Customer service costs per customer;
i. Customer service costs as a percentage of total OM&G costs;
j. Overhead costs as a percentage of total OM&G costs;
k. Labor costs as a percentage of total OM&G costs;
l. Contract services costs as a percentage of total OM&G costs;
m. Annual materials cost per inventory.

Response IR-43: Please refer to CA IR-38, Attachment 1.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-44: **Identify all information, in addition to that set out in the Application, dealing with steps or initiatives or action to be taken by NSPI to reduce its OM&G costs for the year 2007 and beyond.**

Response IR-44: NSPI continues to carefully manage Operating, Maintenance & General (OM&G) expenditures. The Company's approach is described on pages 71-74 of the Direct Evidence. Significant results of NSPI's cost control strategies are highlighted on pages 73-74.

All of NSPI's operating and corporate groups are challenged to manage OM&G costs and increase efficiencies on an on-going basis. As a result, NSPI has not requested an increase in 2007 OM&G expenditures beyond 2006C levels, with the exception of pension expense. This ability to maintain costs at 2006C levels is expected to be achieved through savings that offset the wage increases included in the 2007 Forecast.

NSPI establishes overall corporate OM&G targets as part of its annual planning and OM&G targets are established for all individual business units and departments.

NSPI has carried out two internal studies, which also illustrate action taken by the Company to reduce OM&G costs. The most recent study was filed with the UARB on September 2, 2004. NSPI reviewed benchmarks for its corporate OM&G costs earlier this year. Please refer to the Accenture Report provided in CA IR-45 Attachment 1, page 2.

> ...among comparable Canadian and US utilities, Nova Scotia Power benchmarked in the first quartile for all corporate services functions except Human Resources, which was on the second quartile, in O&M costs…

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Response IR-44: (cont'd)

Per UARB direction, NSPI is undertaking a more detailed review of its corporate structure. The terms of reference for this study can be found in CA IR-38.

NSPI also benchmarks its OM&G performance against other Canadian utilities and performs a trend analysis. The Company's response to CA IR-47 illustrates NSPI's operation as compared to other Canadian utilities. An eight-year trend analysis of NSPI's OM&G costs can be found in the response to UARB IR-56. The total 2007 OM&G expenditures, including pensions, are:

- lower than 2000 in constant dollars[1];
- unchanged from 2000 on a per GWh basis in current dollars and lower in constant dollars;
- lower than 2000 on a per customer basis in constant dollars.

NSPI's OM&G costs have been subjected to detailed reviews in each of the last three general rate applications.

[1] Using Canadian CPI

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA **REDACTED**

Question IR-45: **In reference to the Operations Review described at section 4.2 of the Application, identify any preliminary or interim reports, conclusions, findings or assessments by the consultant.**

Response IR-45: In Q1 2006 Accenture was engaged to carry out a review of operating costs at NSPI. A copy of the results can be found in Confidential Attachment 1.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-46: **Provide the following data for each of the last five years and forecast for the next five years:**

a. Transmission Operations, Maintenance and General (OM&G) costs per mile of transmission;
b. Distribution OM&G costs per mile of distribution;
c. Transmission OM&G per kWh;
d. Distribution OM&G per kWh;
e. Percentage of outside work orders completed per month;
f. Training expense per customer service agent;
g. Customer service costs per day;
h. Customer service costs per customer;
i. Customer service costs as a percentage of total OM&G costs;
j. Overhead costs as a percentage of total OM&G costs;
k. Labor costs as a percentage of total OM&G costs;
l. Contract services costs as a percentage of total OM&G costs;
m. Annual materials cost per inventory.

Response IR-46: a.-d.

Year	Transmission OM&G $/mile Transmission	Distribution OM&G $/mile Distribution	Transmission OM&G $/kWh	Distribution OM&G $/kWh
2001	$4,240	$2,568	$0.00121	$0.00348
2002	$3,947	$2,376	$0.00111	$0.00319
2003	$4,555	$2,717	$0.00122	$0.00352
2004	$3,841	$2,278	$0.00100	$0.00288
2005	$4,096	$2,415	$0.00107	$0.00308

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Response IR-46: (cont'd)

Year	Transmission OM&G $ /mile Transmission	Distribution OM&G $/mile Distribution	Transmission OM&G $/kWh	Distribution OM&G $ /kWh
2006	$4,153	$2,434	$0.00114	$0.00327
2007F	$4,147	$2,432	$0.00104	$0.00299
2008F	$4,782	$2,770	$0.00117	$0.00335
2009F	$4,898	$2,844	$0.00118	$0.00339
2010F	$5,050	$2,915	$0.00119	$0.00342
2011F	$5,228	$3,000	$0.00121	$0.00348

kWh are the net system energy
Figures presented may contain rounding differences
Detailed future multi year forecast are inherently uncertain. A variety of factors can significantly affect costs from year to year.

e. NSPI does not track this metric.

f. NSPI recognizes the importance of employee training, particularly for Customer Service Representatives (CSRs) who serve customers directly each day. NSPI maintains a dedicated training facility for CSRs and employs two full-time Call Centre Training Coordinators who manage and facilitate the majority of CSR classroom training. In addition to classroom training, all CSRs receive monthly coaching and feedback through a formal quality assurance program administered by a team of coaches.

Initial CSR training involves approximately seven weeks of classroom training. In addition, there are approximately six days per year of formal classroom training which focuses on skills refresher, new skills training, soft skills, and initiative driven (that

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Response IR-46: (cont'd)

is, process change) training. Classroom training is supplemented by scheduled and informal job shadowing.

NSPI does not account for all of these training expenses in a single cost centre and therefore does not specifically track training expense per CSR. It is estimated that for 2006, based on the cost of trainer, coach and CSR labour, the cost of CSR training is between $3,000 and $4,000 per CSR. This estimate includes labour and fringe benefits, but does not include overheads such as the office space and equipment for the training room or the cost of technology for call recording and evaluation.

It is expected that training costs per CSR will escalate at approximately 3.5 percent annually, consistent with projected non-union labour increases.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Response IR-46: (cont'd)

g. The Customer Service costs per day for the years 2001 to 2011 are provided in the table below.

Year	Customer Service cost per day[1]
2001	$68,085
2002	$60,776
2003	$58,371
2004	$60,086
2005	$62,065
2006F	$64,224
2007F	$68,579
2008F	$78,402
2009F	$80,723
2010F	$82,890
2011F	$85,123

Figures presented may contain rounding differences
Detailed future multi year forecast are inherently uncertain. A variety of factors can significantly affect costs from year to year.

Increases in OM&G from 2007 to 2011 are discussed in NSPI Direct Evidence pages 92-93, and Direct Evidence Appendix C.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Response IR-46: (cont'd)

h. The Customer Service cost per customer for the years 2001 to 2011 are provided in the table below.

Year	Customer Service cost per customer[1]
2001	$55.26
2002	$48.81
2003	$46.44
2004	$47.39
2005	$48.37
2006F	$49.44
2007F	$52.14
2008F	$59.63
2009F	$60.73
2010F	$61.88
2011F	$63.08

Figures presented may contain rounding differences
Detailed future multi year forecast are inherently uncertain. A variety of factors can significantly affect costs from year to year.

The increases in OM&G from 2007 to 2011 are explained in detail in NSPI Direct Evidence pages 92-93.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Response IR-46: (cont'd)

i. The Customer Service costs as a percent of total OM&G costs for 2001 to 2011 are provided in the table below.

Year	Customer Service costs as a percent of total OM&G costs[1]
2001	16.2%
2002	13.0%
2003	11.8%
2004	12.7%
2005	12.3%
2006F	11.7%
2007F	12.5%
2008F	13.1%
2009F	13.2%
2010F	13.2%
2011F	13.3%

Figures presented may contain rounding differences
Detailed future multi year forecast are inherently uncertain. A variety of factors can significantly affect costs from year to year.

The increases in OM&G from 2007 to 2011 are explained in detail in NSPI Direct Evidence pages 92-93. Total OM&G from 2007 to 2011 is listed in Confidential Appendix B.

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TO: NSPI

FROM: CA

Response IR-46: (cont'd)

j.-l. Please refer to Attachment 1.

m. Please refer to Attachment 2.

	2001	2002	2003	2004	2005	2006F	2007F	2008F	2009F	2010F
Overhead as a percentage of OM&G costs	11.49%	6.08%	7.73%	7.34%	6.57%	7.35%	7.69%	7.11%	5.99%	5.98%
Labour as a percentage of OM&G costs	66.85%	61.80%	58.69%	60.99%	55.95%	54.08%	55.07%	53.17%	53.35%	53.77%
Contracts as a percentage of OM&G costs	14.56%	14.82%	14.81%	15.54%	16.82%	16.53%	19.06%	18.15%	18.26%	18.38%

Figures presented may contain rounding differences.

Detailed future multi year forecast are inherently uncertain. A variety of factors can significantly affect costs from year to year.

	2001	2002	2003	2004	2005	2006F	2007F	2008F	2009F	2010F
Average Inventory ($000's)	26,357	26,728	26,589	26,004	25,762	25,762	25,762	25,762	25,762	25,762
Material expense ($000's)	12,205	11,218	12,183	9,723	11,212	10,899	10,409	10,712	10,925	11,145
Annual material cost per inventory	**46.31%**	**41.97%**	**45.82%**	**37.39%**	**43.52%**	**42.31%**	**40.40%**	**41.58%**	**42.41%**	**43.26%**

Note: Inventory levels are assumed to remain constant in the years 2006 to 2010.

Figures presented may contain rounding differences.

Detailed future multi year forecast are inherently uncertain. A variety of factors can significantly affect costs from year to year.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-47: **Identify any and all data, reports, analyses or other information used by NSPI to compare its efficiency of operations to those of any other utility.**

Response IR-47: In 2003, NSPI participated in a North American Transmission and Distribution Benchmarking program offered through PA Consulting Group. This study included 46 electrical utilities of various sizes across North America. Please refer to Attachment 1 for Scorecard results for NSPI. Overall, NSPI performed in the top quartile in both cost and safety categories.

In 2006, NSPI participated in the Canadian Electrical Association's Corporate Performance and Productivity Evaluation (COPE) Benchmarking Program. While individual company data is confidential, NSPI's performance in relation to reporting utility averages is provided below.

The number of reporting Canadian utilities for each measure is shown in brackets:

Transmission

Total OM&G per km (2005 $)	
NSPI	$3,321
Utility Average (9)	$6,270

Total Full Time Equivalents per 1000 km	
NSPI	46.0
Utility Average (6)	47.5

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Response IR-47: (cont'd)

Labour Cost per km (2005 $)	
NSPI	$3,006
Utility Average (10)	$3,847

Distribution

Total OM&G per km (2005 $)	
NSPI	$1,966
Utility Average (9)	$3,468

Total Full Time Equivalents per 100 km	
NSPI	1.8
Utility Average (7)	5.2

Labour Cost per km (2005 $)	
NSPI	$923
Utility Average (7)	$2,930

Customers per Full Time Equivalent	
NSPI	1009
Utility Average (7)	607

DATE FILED: November 20, 2006

Results based upon Second Draft Submission
Use this scorecard to check your own data for reasonableness and accuracy

Panel Used:
Type: **All**
Size: **All**
Region: **All**

Nova Scotia Power Inc., Can

Overall T&D Scorecard

2003YE		2002YE		3-Year Average	
Mean = 8.35	Q1 = 15.25	Mean = 10.57	Q1 = 15.79	Mean = 8.40	Q1 = 12.69
Total Points	10.50 of 40	**Total Points**	##	**Total Points**	9.18 of 40
Total Ranking	Second Quartile	**Total Ranking**	##	**Total Ranking**	Second Quartile

Key Performance Indicators	2003YE						2002YE					3-Year Average					
Measure	Pg#	Mean	1st Q	N=	NSPI	Qt	Mean	1st Q	N=	NSPI	Qt	Mean	1st Q	N=	NSPI	Qt	Pg#
Cost = 50% of Score; Mathematical Weighting: 50%/(10/20)=1.000																	
T&D Exp'd Per Dist Cust	1	$266	$205	34	$152	Q1	$270	$235	29			$265	$221	32	$138	Q1	11
T&D Cap Adds Per Dist Cust	23	$159	$110	35	$66	Q1	$169	$133	29			$164	$126	32	$57	Q1	33
T&D O&M Exp Per Dist Cust	39	$104	$85	35	$85	Q2	$101	$84	30			$101	$86	32	$81	Q1	48
T&D Exp'd Per MWh Sold	5	$9.39	$7.41	34	$5.93	Q1	$10.61	$8.41	29			$8.89	$7.23	31	$5.46	Q1	13
T&D Cap Adds Per MWh Sold	25	$5.55	$4.35	35	$2.60	Q1	$6.60	$5.07	29			$5.41	$4.53	31	$2.25	Q1	35
T&D O&M Exp per MWh Sold	43	$3.67	$2.71	35	$3.34	Q2	$3.97	$2.82	30			$3.59	$2.78	32	$3.21	Q2	50
T&D Expd Per Asset	6	8.04%	7.05%	35	6.26%	Q1	8.68%	7.52%	29			8.19%	7.10%	33	5.72%	Q1	14
T&D Cap Adds Per Asset	26	4.81%	3.74%	36	2.74%	Q1	5.44%	4.07%	29			5.08%	4.32%	33	2.36%	Q1	36
T&D O&M Exp Per Asset	44	3.17%	2.73%	36	3.52%	Q4	3.24%	2.75%	29			3.11%	2.85%	33	3.36%	Q3	51
T&D Delivery Cost Per kWh Sold	101	$0.0212	$0.0171	33	$0.0112	Q1	$0.0208	$0.0156	29								
Reliability = 40% of Score; Mathematical Weighting: 40%/(6/20)=1.333																	
SAIDI Inc Major Events & Planned Outages	156	548.61	143.77	45	2276.00	Q4	254.05	88.95	41			356.05	146.45	44	962.33	Q4	157
SAIFI Inc Major Events & Planned Outages	158	1.82	1.13	44	3.91	Q4	1.65	1.04	41			1.74	1.03	43	3.00	Q4	159
CAIDI Inc Major Events & Planned Outages	160	244.35	85.16	43	582.00	Q4	148.13	90.94	41			163.99	94.80	43	273.33	Q4	161
SAIDI Ex Major Events & Planned Outages	163	134.05	65.70	43	333.00	Q4	128.76	78.00	41			128.08	68.79	41	279.67	Q4	164
SAIFI Ex Major Events & Planned Outages	165	1.30	0.81	43	2.46	Q4	1.36	0.83	41			1.34	0.85	41	2.23	Q4	166
CAIDI Ex Major Events & Planned Outages	167	100.58	76.70	42	135.00	Q4	98.80	67.48	41			98.87	73.80	41	125.67	Q4	168
Safety = 10% of Score; Mathematical Weighting: 10%/(4/20)=0.500																	
Lost Time Incident Rate - T&D	375	1.01	0.43	36	0.12	Q1	1.78	0.60	32			1.02	0.51	32	0.30	Q1	381
Recordable Incident Rate - T&D	366	3.99	2.31	35	1.49	Q1	5.36	3.26	32			4.59	2.91	32	1.55	Q1	371
Lost Time Severity Rate - T&D	380	38.74	7.71	34	2.36	Q1	80.06	29.16	29			60.56	19.61	30	316.97	Q4	390
Total Vehicle Incident Rate - T&D	395	7.73	5.28	28	6.17	Q2	8.30	4.31	23			9.81	5.27	23	8.16	Q3	400

Q1 = 2 pts; Q2 = 1 pt; Q3 = 0 pt; Q4 = -1 pt; Q4 in Safety = -2 points

CA IR-47 Attachment 1 Page 1 of 1

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-48: **Identify what metrics NSPI has used historically to determine its efficiency, relative to other utilities or entities, and relative to its historic performance.**

Response IR-48: NSPI's Transmission and Distribution groups have completed benchmarking studies to determine their efficiency relative to other utilities. Please refer to CA IR-47. The utility safety and customer reliability performance metrics of participating Canadian Electricity Association (CEA) utilities are published annually by CEA.

In addition, the Power Production group maintains statistics on key internal operating parameters including heat rate, generation, derated forced outage factors and unit availability.

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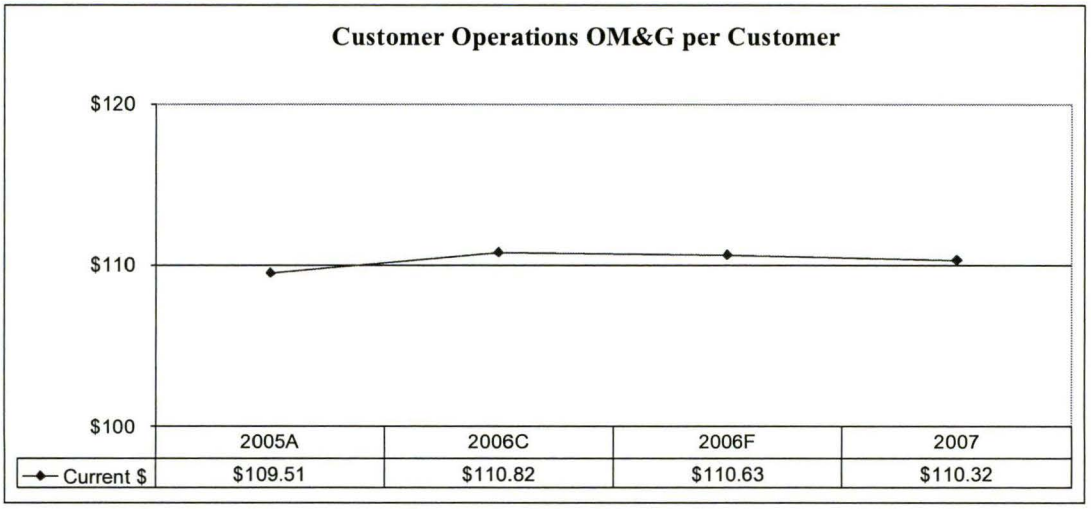
RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-49: **Provide Figure 4.5, Customer Operations OM&G per Customer, adjusted for the transfer out of customer operations in 2007.**

Response IR-49: Please see the figure below:



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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-50: **Referencing pp. 78-79, including Figure 4.6, please state whether it is fair to conclude from this Direct Evidence that NSPI does not foresee any efficiencies in 2007 in Customer Operations OM&G per Customer.**

Response IR-50: Customer Operations continues to deploy cost control strategies as part of the Company's on-going efforts to contain costs. NSPI has taken these efficiencies into account in the 2007 Rate Filing. Figure 4.5 on page 78 of the Direct Evidence and CA IR-49 shows that NSPI's cost per customer for Customer Operations is decreasing. Please refer to UARB IR-38.

Inflationary costs associated with materials and services, as well as emerging costs associated with the opening of the Nova Scotia electricity market and the establishment of the International Electricity Reliability Organization are anticipated by the Customer Operations group.

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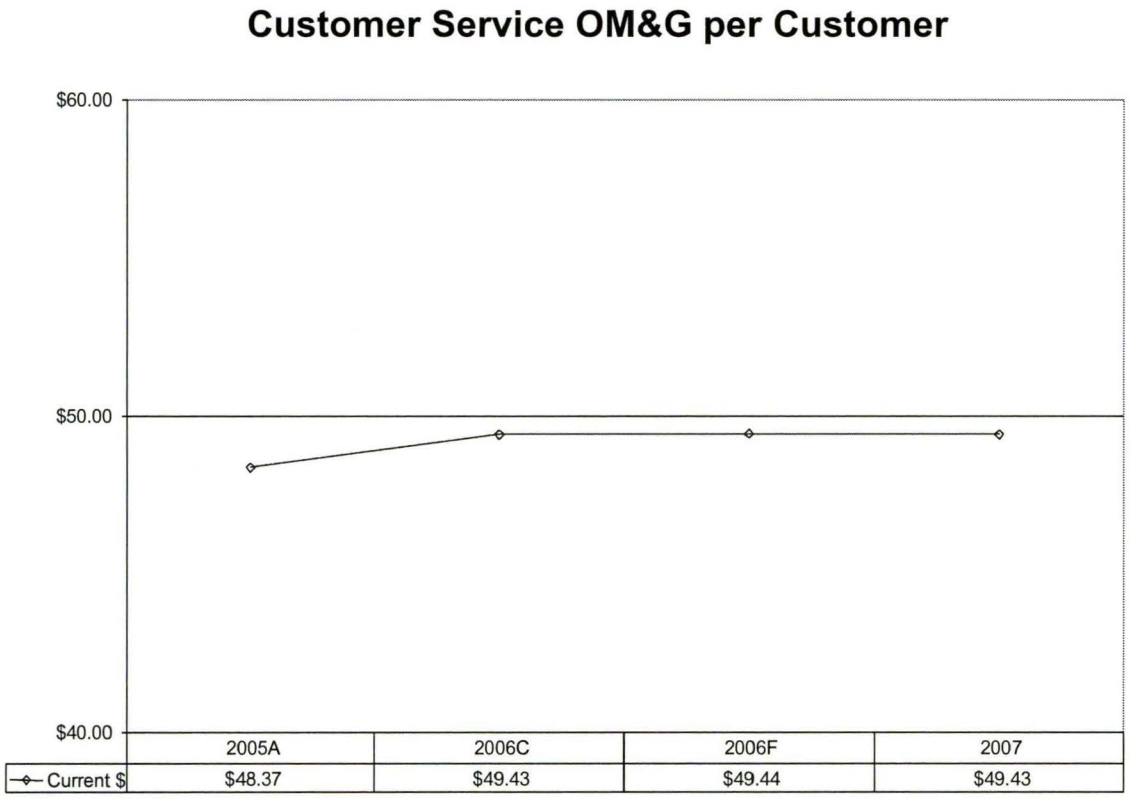
RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-51: **Provide Figure 4.8, Customer Service OM&G per Customer, adjusted to remove the impact of the transfers in from Customer Operations and Information Technology.**

Response IR-51: Figure 4.8, adjusted to remove the impact of the transfers from Customer Operations and Information Technology, is shown below.



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-52: **Identify the economies that were undertaken that are enabling the Company to bring the 2006 forecast Thermal Labour, Combustion Turbine Labour, Hydro Labour costs in below the 2006 Compliance amounts. Please explain if such economies will be achieved in 2007, and if not, why not.**

Response IR-52: The change in labour reflects the consolidation of projected spending, not projected savings. The approved monies for Succession Planning and Apprenticeship training were moved from Thermal, Combustion and Hydro's cost centers to the Head Office cost center for purposes of consolidated tracking.

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-53: **Reference Appendix B (confidential), p.22-23, Thermal OM&G, please explain in more detail why the cost for Materials was considerably higher in the 2006C amount than in 2005 actual, 2006 forecast, and 2007 forecast.**

Response IR-53:

2005A vs. 2006C

Increased investment in maintenance and plant outage costs from 2005A to 2006C was required for purpose of reliability and availability.

2006C vs. 2006F

The Rate Case approval was effective April 1, therefore forecasted spending reflects an adjustment because of timing. Also the reduction in material spending was to offset the increase in contracts at Tufts Cove due to the increased projected cost of acid cleaning, as well as the increased contract/consulting cost at Trenton for the Unit 5 technical evaluation.

2006C vs. 2007F

Fewer total planned outage weeks and scope of work across the units attribute to the lower material costs in 2007.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-54: **Referencing Appendix B (Confidential), page 23, Thermal Expenses, identify separately in each applicable column the Succession Planning costs and the Apprentice Training costs from the Other Goods and Services.**

Response IR-54: The approved expenditures for Succession Planning and Apprenticeship training were moved from Thermal to the Head Office cost centre for ease of consolidated tracking.

(in thousands)	2007F	2006F	2006C	2005A
Thermal			$724	N/A
Head Office (Appendix B page 20-21)	$724	*$543		N/A

* Adjusted due to timing of rate case decision – April 1, 2006.

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 **REDACTED**

Question IR-55: **Provide Appendix B (Confidential), assuming no transfers of cost responsibility from one unit to another, so that all changes not attributable to such transfers can be isolated.**

Response IR-55: Please refer to confidential Attachment 1.

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-56: **Provide Appendix B (Confidential), pp. 3, 5, 7, 9, etc. (the Overview pages with description of variances) with lines that include transfer of cost responsibility broken out to show the portion attributable to the transfer and the portion attributable to other factors.**

Response IR-56: The transferred costs were not captured to this level of detail, therefore, NSPI cannot provide the detailed variance analysis as requested.

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

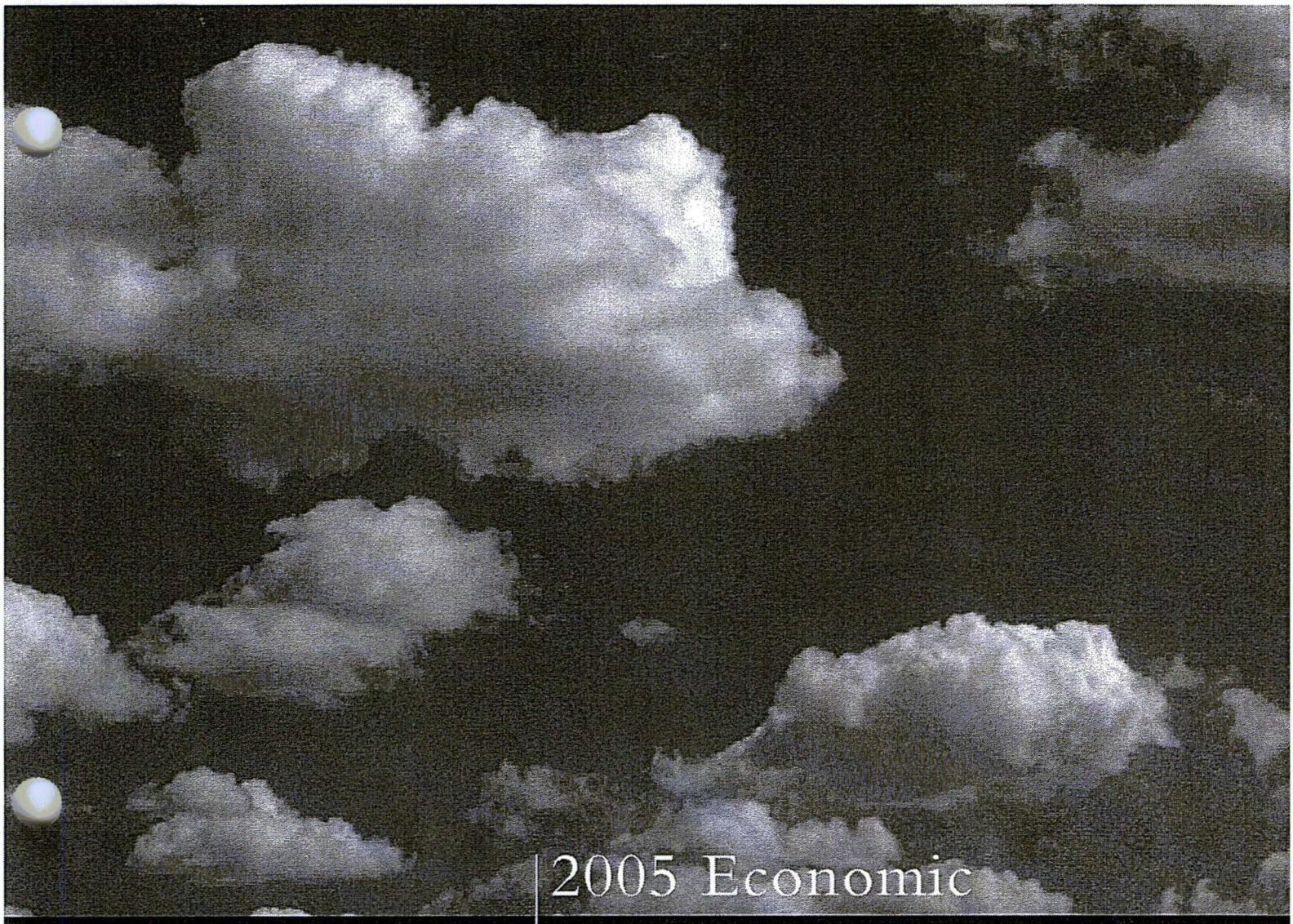
RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-57: **Provide a copy of the Morneau Sobeco study "2005 Economic Assumptions for CICA 3461 Survey."**

Response IR-57: Please refer to Attachment 1.



2005 Economic Assumptions CICA Section 3461

Integrating Design & Delivery

Highlights of our annual survey results

SPECIAL REPORT

MORNEAU SOBECO



Introduction

Section 3461 of the Canadian Institute of Chartered Accountants Handbook (CICA 3461) requires that the management of a company sponsoring a defined benefit plan measure the plan's accrued benefit obligation (ABO) and annual expense using assumptions that individually reflect best estimates and are "internally consistent with each other".

Morneau Sobeco has compiled information disclosed by about 100 Canadian public companies in their most recent audited financial statements, as of December 31, 2004. Assumptions for the fiscal year ending December 31, 2004 have also been compared to the previous year. This is the fifth year our survey has been produced.

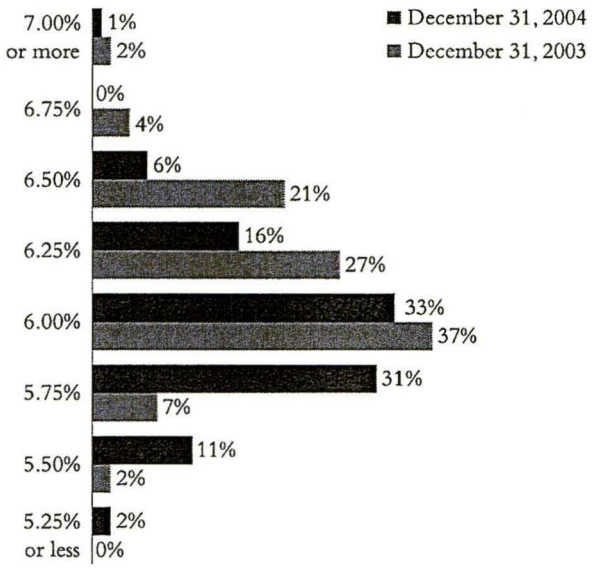
In light of Section 3461 new disclosure requirements, we have added some items to our survey:

- *Measurement date of assets and benefit obligation;*
- *Pension asset allocation;*
- *Pension expense before and after consideration for long-term nature of employee future benefits.*

Discount Rate for Pension Plans

The following chart summarizes the discount rate used for defined benefit pension plan accounting (see the appendix for a description of the discount rate). The median discount rate is 5.90% at December 31, 2004 compared to 6.25% at December 31, 2003. About 80% of the companies used a rate between 5.75% and 6.25%. This range is consistent with CICA 3461 recommendations.

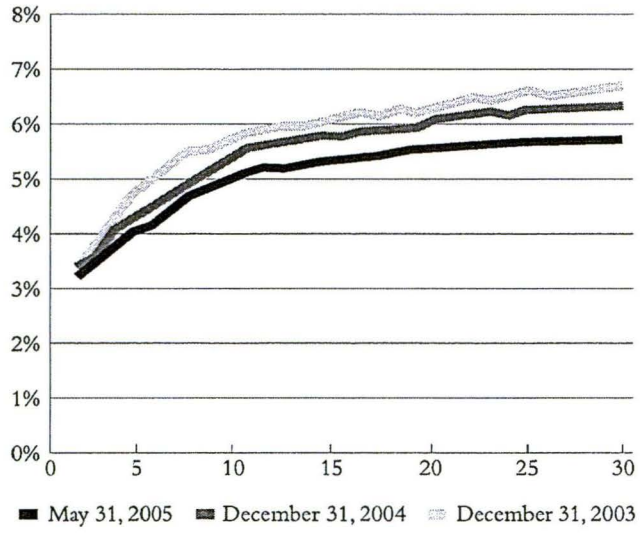
Discount Rate / Pension Plans



Even though the median discount rate has decreased by 35 basis points, 22% of the companies maintained the same discount rate as last year.

Over time, the yields on high-quality corporate bonds may vary considerably. The discount rate should be expected to vary in a similar fashion. For illustration purposes, we have included the yield curve at May 31, 2005. It is bout 45 basis points lower than the December 31, 2004 rates. The May 31, 2005 rates are at their lowest level since CICA 3461 was adopted.

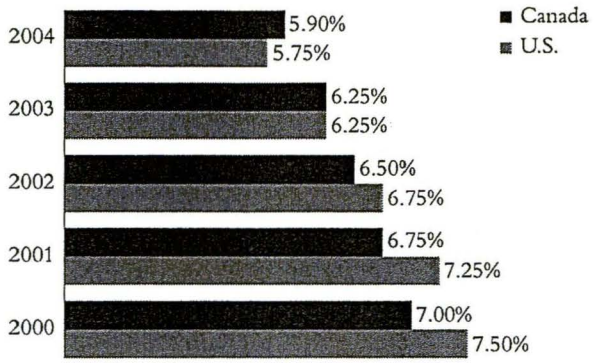
High-Quality Corporate Bonds



If the yield curve should remain at the May 2005 level until the end of the year, we could expect the December 31, 2005 discount rate to be about 45 basis points lower than the December 31, 2004 rate.

The following chart compares the median discount rates in our survey to the median discount rates from the U.S. survey[1], including discount rates that are expected as at December 31, 2004. We see that the rates in the U.S. has fallen below the Canadian rates at December 31, 2004 and for the first time since adoption of CICA 3461.

Discount Rate by Country



Discount Rate for Non-Pension Benefits

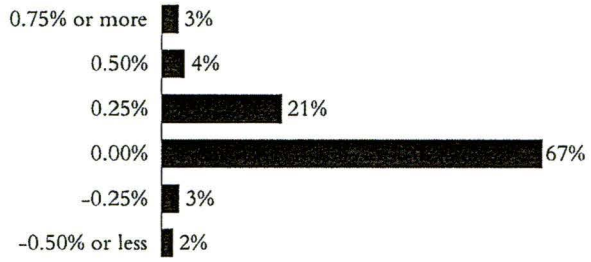
Because of the different nature of employee future benefits other than pensions, some companies may choose to use a different discount rate in their valuation of other benefits. The ABO may have a different duration because it applies to a different population, or because of the nature of the benefits offered. For example, the duration of the ABO for a retiree medical plan is often higher than the duration of a pension ABO for the same population.

The following chart shows the difference between the discount rate used in the valuation of employee future benefits other than pensions, and that used for pension plans.

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[1] Source: Survey of Economic Assumptions used for SFAS No. 87 and SFAS No. 106 Purposes, prepared by Deloitte & Touche Human Capital Advisory Services (US).

Difference in Discount Rates



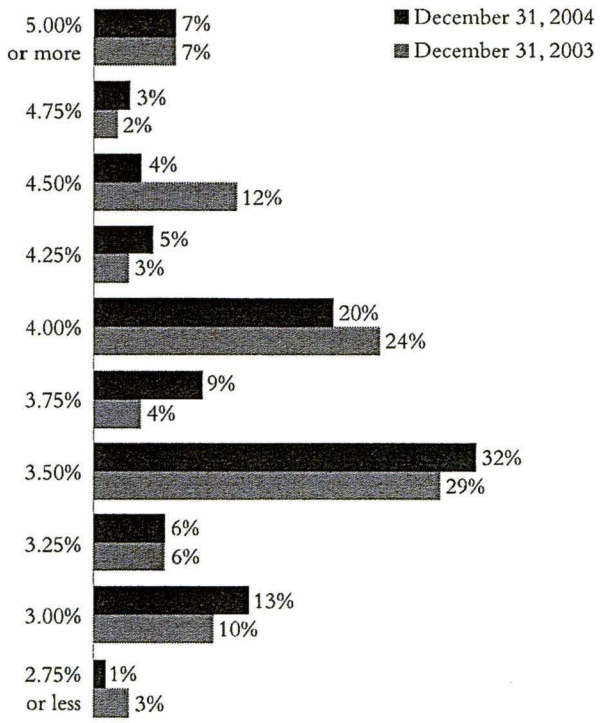
While in most cases management selects identical assumptions for pensions and other employee benefits, 29% use a higher discount rate assumption for employee future benefits (an increase from the 20% of our previous survey).

Rate of Compensation Increase

Plans that provide pay-related benefits are required to make an assumption about the rate of compensation increases. CICA 3461 indicates that it should reflect "future changes attributed to general price levels, productivity, seniority, promotion, and other factors".

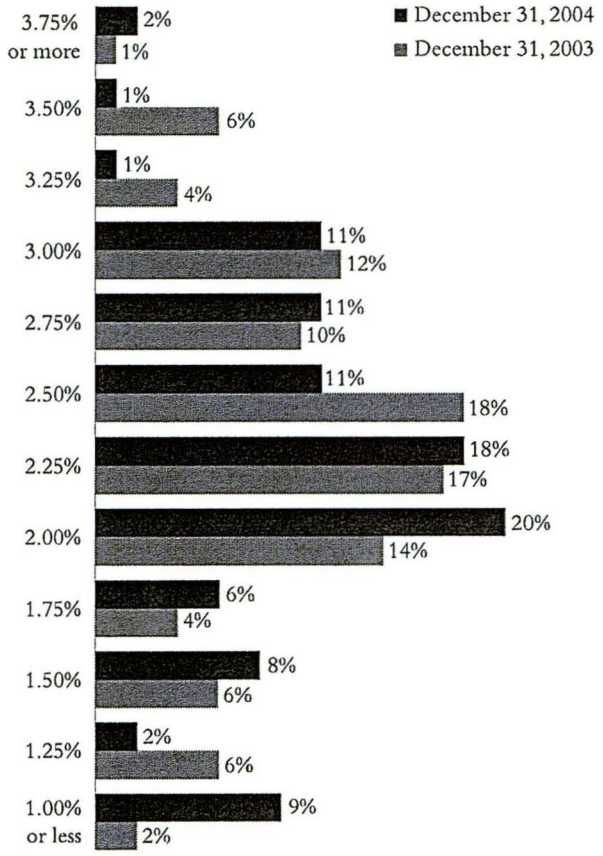
The median compensation increase assumption at December 31, 2004 was 3.5%, 30 basis points lower than last year. It should be noted that 61% of companies used rates between 3.5% and 4.0%.

Rate of Compensation Increase



The following graph shows the spread between the discount rate and the rate of compensation increase. The spread between these two assumptions generally has an important impact on the ABO calculated for defined benefit pension plans. The median is 2.3% at December 31, 2004 compared to 2.4% last year.

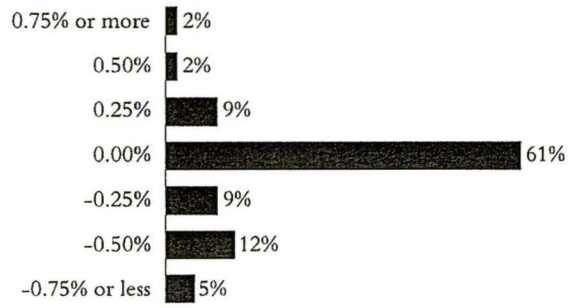
Spread Discount Rate / Compensation



There is some debate among practitioners and management regarding the frequency of changes in the rate of compensation increase assumption. The standards provide additional guidance on this issue, especially in the CICA "Supplement to the Employee Future Benefits Implementation Guide". It states that the requirement to be internally consistent applies to all assumptions except for the discount rate. Assumptions other than the discount rate should be based on a long-term view and should be revised only with a significant change in expected long-term economic conditions.

Our survey results show that, while the discount rate has generally declined, 61% of companies have kept the same rate of compensation increase assumption as last year. About 26% of companies adjusted their assumption downward.

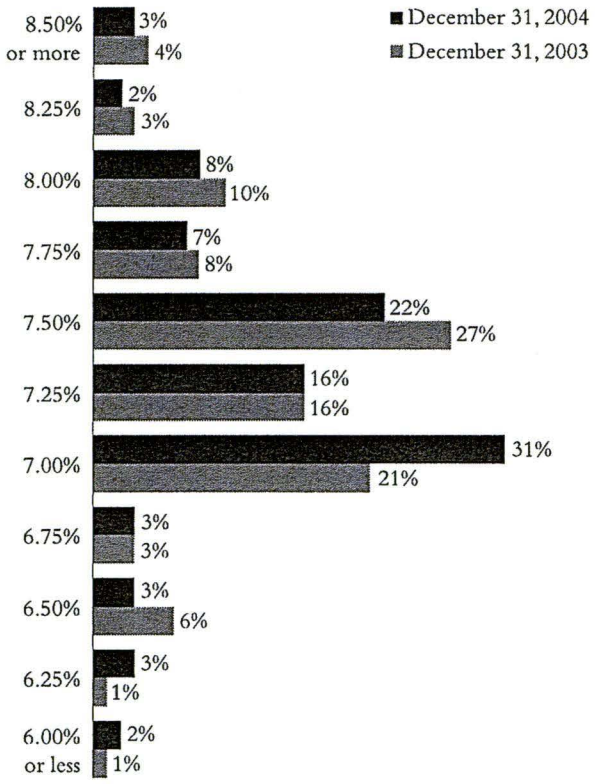
Change in Compensation Increase Assumption (2004 vs 2003)



Expected Long-Term Return on Plan Assets

CICA 3461 specifies that the assumed rate of return on plan assets should also reflect a long-term view. The following chart shows the assumptions disclosed at December 31, 2004.

Expected Return on Plan Assets



The median expected long-term rate of return on plan assets is 7.25% which is 25 basis points below the December 31, 2003 survey. About 69% of the companies use rates between 7.0% and 7.5%.

Actual returns earned in 2004 by pension funds exceeded for most plans the assumption for expected long-term return on plan assets. The actual median return for diversified pension funds was 10.2% in 2004 according to the "Performance Universe of Pension Managers' Pooled Funds" prepared by Morneau Sobeco. Even with this good performance, the decline in discount rate should still increase the pension expense in 2005 in many cases.

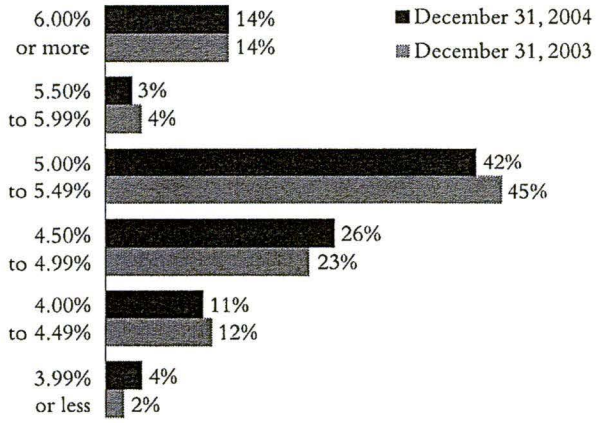
Medical Cost Trend

Where retiree medical coverage is offered, a key assumption in the valuation of the ABO is the rate of future medical cost increases. CICA 3461 provides guidance on factors that companies should consider in selecting this assumption.

Often, medical costs are assumed to increase at a higher rate in the short term. The rate of these increases is then assumed to decline gradually over time to an ultimate level.

The following charts show the December 31, 2004 medical cost trend assumptions compared to the December 31, 2003 assumptions. About 70% of companies used an ultimate trend rate between 4.5% and 5.5%. The median is 5.0%, unchanged from last year's survey.

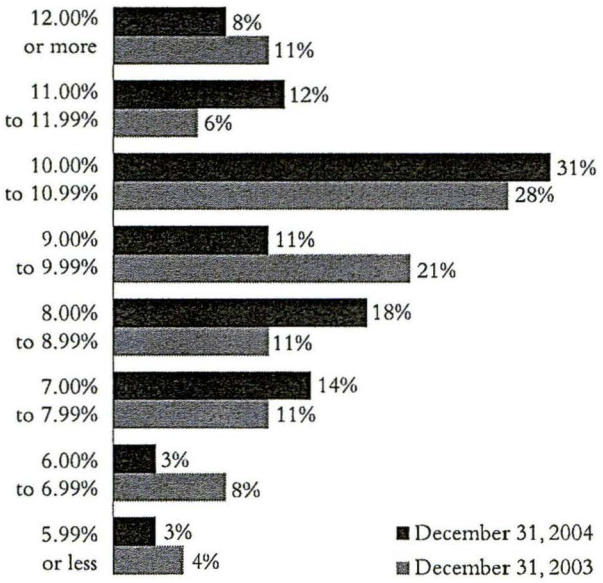
Ultimate Medical Cost Trend



There has been a slight increase in the short-term assumption. The median is 9.9% compared to 9.7% at December 31, 2003.

For the third straight year, there has been an increase in the number of companies using an assumption of 10% or above. In fact, 50% fall in that category. Only 20% of companies have opted for an assumption below 8%.

Short-Term Medical Cost Trend



New CICA 3461 disclosures

This year marks the adoption of new disclosures to the companies' financial statements. Our survey has expanded to provide you additional information with regard to these new disclosures.

ASSET AND OBLIGATION MEASUREMENT DATE

CICA 3461 requires that the employee future benefits be measured at fiscal year end or at a date up to 3 months prior to that date. All companies in our survey have a December 31 fiscal year end; therefore, some companies may use a measurement date as early as September 30.

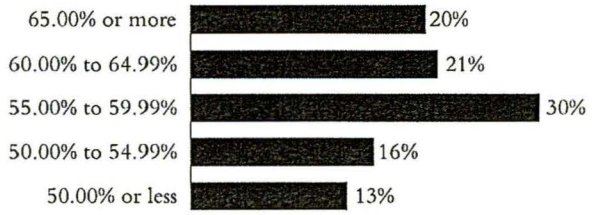
We find that a vast majority of companies, 86%, use December 31 as a measurement date. Among the others, the September 30 is used most often at 9%.

PENSION PLAN ASSET ALLOCATION

It is now required to disclose the asset allocation by at least the following categories: equity, debt and other assets. Additional categories may be added if it helps the user of the financial statement improve his understanding of the investment risk. We find that almost all companies have elected to show only the minimum allocation categories: equity, debt and other assets (no additional categories were added).

The average asset allocation at December 31, 2004 is 58% of equity, 38% of debt and 4% of other assets. The actual proportions of equity held by pension plans are shown below:

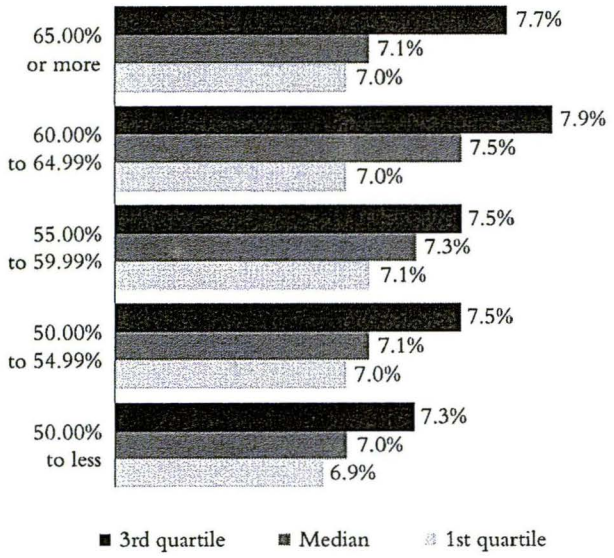
Company distribution by their pension plans' equity level



Since the assumption for expected long-term return on assets is based on asset allocation and expectations for future growth of these assets, we have compared the rate of return on asset assumptions to the level of equity held by pension plans.

Intuitively, we expect that a pension plan holding more equity should have a higher rate of return on asset assumption while a plan with a lower proportion of equity should have a lower assumption. Results from our survey, in the graph below, show that the rate of return on asset assumption is similar even with varying levels of equity held. Note that the plans with equity level between 60% and 65% have a median and third quartile higher than others.

Long-term rate of return assumption for varying levels of equity



PENSION EXPENSE BEFORE AND AFTER ADJUSTMENT

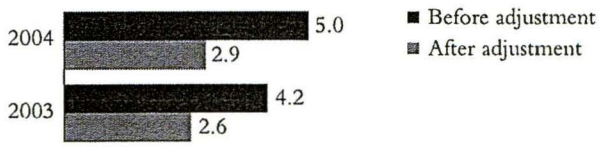
CICA 3461 allows companies to amortize the different gains and losses, past service costs and transitional liability (asset) over future fiscal periods. These amortizations are permitted due to the long-term nature of employee future benefits. With the new disclosures, it is required to differentiate the expense recognized into income statement from the expense that would prevail if there were no amortization.

We note that in our survey, about 75% of companies have presented this information retroactively for 2003 (for comparison purposes). Our analysis is based on those companies. They have funds with pension assets of $88 billions, about 89% of pension assets of all companies in our survey.

In CICA 3461, we refer to "expense before adjustment" and "expense after adjustment". The latter represents the company's recognized expense presented in the income statement. The difference between these two shows the market volatility that is present in defined benefit plans.

The following graph shows the difference between pension expense before and after adjustment for 2003 and 2004 in aggregate for all companies that provided this information. We find that in 2004, they have recognized a total of $2.9 billions in expense whereas it would have been approximately $5 billions without any amortization mechanisms. It will be interesting to follow the evolution of these results in future years.

Pension expense before/after adjustment (in billions of dollars)



Appendix – Selecting the Discount Rate

In general, the ABO is most sensitive to the discount rate assumption. For example, a 25-basis-point decrease in the discount rate may increase the ABO by as much as 5%. This increase could, in turn, impact the annual expense in subsequent years.

CICA 3461 provides general guidance as to the selection of the discount rate assumption. It should be determined by reference to market interest rates on high-quality debt instruments or to the interest rate at which the ABO could be settled. Although the discount rate is defined in CICA 3461, it does not prescribe a precise methodology for computing this rate.

Since Canadian standards are similar to the United States equivalent, one may look for guidance provided by the Securities and Exchange Commission ("SEC") staff. The SEC has interpreted that the discount rate should reflect the yield of a portfolio of high-quality fixed-income instruments (rated as AA or better by Moody's), which has the same duration as the plan's ABO. Since the duration of the plan's ABO is affected by certain demographic characteristics such as average age, average service or proportion of retirees, it should be expected that plans with similar demographics would use similar discount rates.

Information on high-quality Canadian corporate bonds (rated AA or more) is generally available and may serve as a starting point in the determination of the discount rate. Sources such as Scotia Capital provide information on high-quality corporate bond yields.

For More Information

This survey is intended to provide information regarding the assumptions disclosed by a wide range of companies and as such can provide an indication of trends. The assumptions used for your own employee future benefits plans will depend on a number of factors. For more information, speak to your Morneau Sobeco consultant.

MORNEAU SOBECO

HUMAN RESOURCE CONSULTING AND ADMINISTRATIVE SOLUTIONS

Morneau Sobeco is the industry leader in helping organizations deliver their human resource programs. For more than four decades, we have teamed up with North American companies to help them conceive and implement effective business solutions. The size and diversity of our client base gives our consultants a unique, forward-looking perspective on all compensation, retirement, and employee benefits issues.

CALGARY	FREDERICTON	HALIFAX	LONDON	MONTRÉAL
403.267.1717	506.458.9081	902.429.8013	519.438.0193	514.878.9090
OTTAWA	QUÉBEC	ST. JOHN'S	TORONTO	VANCOUVER
613.782.2955	418.529.4536	709.753.4500	416.445.2700	604.642.5200
DES MOINES	HARRISBURG	PITTSBURGH		
515.440.1205	717.730.0656	412.687.3236		

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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

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-58: **Identify the draft "2006 Economic Assumptions for CICA 3461 Survey" when it becomes available, and indicate when the survey is expected to become available.**

Response IR-58: Please refer to Attachment 1.



2006 Survey of Economic Assumptions in Accounting for Pensions and Other Post-Retirement Benefits

Highlights of our annual survey results

Special Report

MORNEAU SOBECO



Introduction

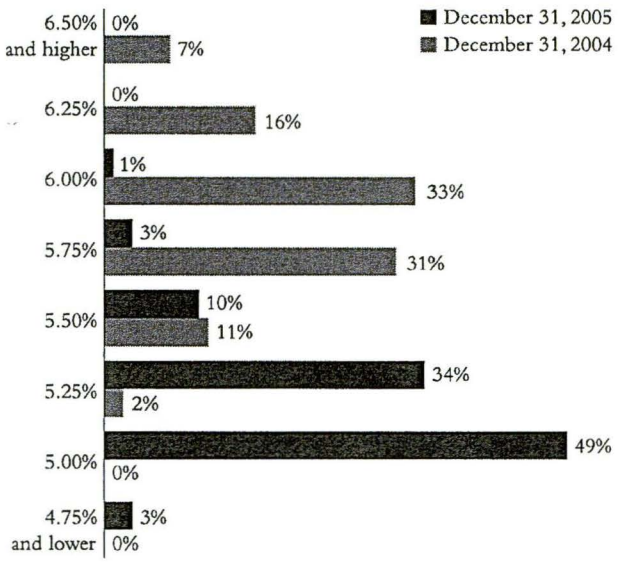
Section 3461 of the Canadian Institute of Chartered Accountants Handbook (CICA 3461) requires that the management of a company sponsoring a defined benefit plan measures the plan's accrued benefit obligation (ABO) and annual expense using assumptions that individually reflect best estimates and are "internally consistent with each other."

Morneau Sobeco has compiled information disclosed by about 100 Canadian public companies in their most recent audited financial statements as at December 31, 2005. This is the sixth year our survey has been produced.

We have added a new item to this year's survey:

> *Year in which the ultimate rate for medical cost trend assumption is reached.*

Discount Rate / Pension Plans



Discount Rate for Pension Plans

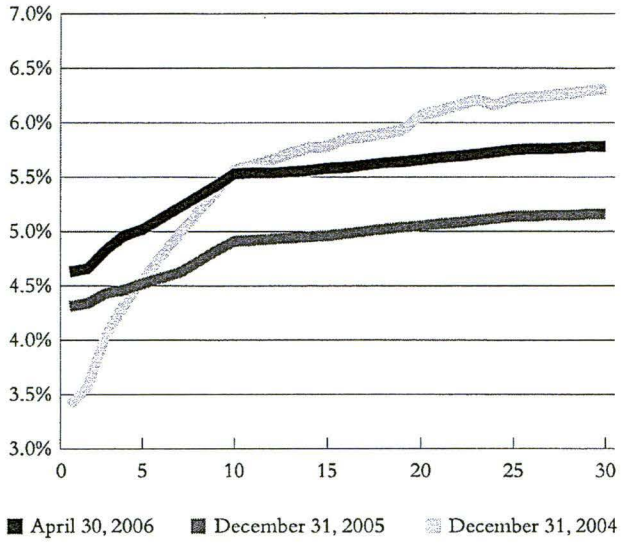
The following chart summarizes the discount rate used for defined benefit pension plan accounting (see the appendix for a description of the discount rate). The median discount rate is 5.10% as at December 31, 2005, compared to 5.90% as at December 31, 2004. About 83% of the companies used a rate of 5.00% or 5.25%. This range is consistent with CICA 3461 recommendations.

About 95% of the companies have revised their discount rate downward in 2005.

Over time, the yields on high-quality corporate bonds may vary considerably. The discount rate should be expected to vary in a similar fashion. For illustration purposes, we have included the yield curve as at April 30, 2006. It is about 60 basis points higher than the December 31, 2005 rates. The rates have been rising in the first few months of 2006 after reaching their lowest level as at December 31, 2005.

The December 31, 2005 yield curve is fairly "flat" and as a result the discount rates are concentrated within a narrow band.

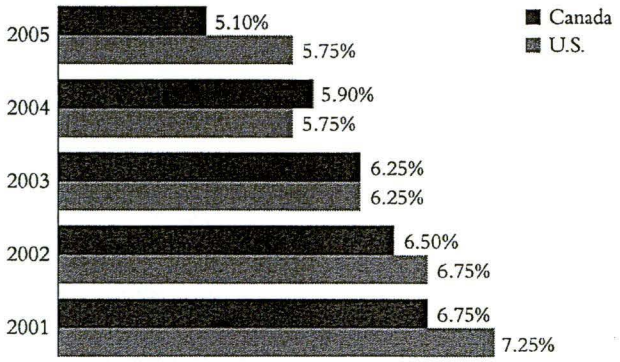
High-Quality Corporate Bonds



If the yield curve were to remain at the April 2006 level until the end of the year, we could expect the December 31, 2006 discount rate to be about 60 basis points higher than the December 31, 2005 rate. It would be the first increase after 6 years of consecutive declines.

The following chart compares the median discount rates in our survey to the median discount rates from a U.S. survey[1]. We see that the rates in Canada have once again fallen below the U.S. rates as at December 31, 2005, after being higher for the first time as at December 31, 2004.

Median Discount Rate by Country



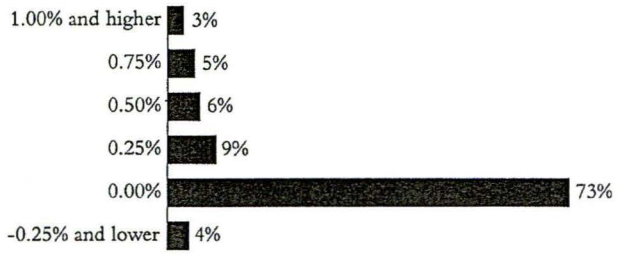
Discount Rate for Non-Pension Benefits

Because of the different nature of employee future benefits other than pensions, some companies may choose to use a different discount rate in their valuation of other benefits. The ABO may have a different duration because it applies to a different population, or because of the nature of the benefits offered. For example, the duration of the ABO for a retiree medical plan is often higher than the duration of a pension ABO for the same population.

The following chart shows the difference between the discount rate used in the valuation of employee future benefits other than pensions and the discount rate used for pension plans.

[1] Source: *Survey of Economic Assumptions used for SFAS No. 87 and SFAS No. 106 Purposes,* prepared by Deloitte & Touche Human Capital Advisory Services (US).

Difference in Discount Rates
(Post-Retirement Benefits vs. Pensions)



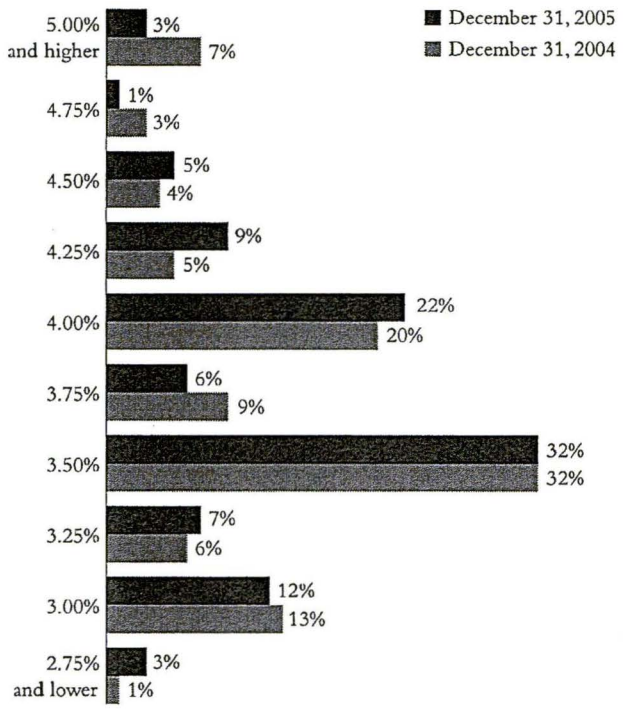
While in most cases management selects identical assumptions for pensions and other employee benefits, 23% use a higher discount rate assumption for employee future benefits (versus 29% in our previous survey).

Rate of Compensation Increase

Plans that provide pay-related benefits are required to make an assumption about the rate of compensation increases. CICA 3461 indicates that it should reflect "future changes attributed to general price levels, productivity, seniority, promotion, and other factors."

The median compensation increase assumption as at December 31, 2005, was 3.5%, identical to last year's median. It should be noted that 60% of companies used rates between 3.5% and 4.0%.

Rate of Compensation Increase

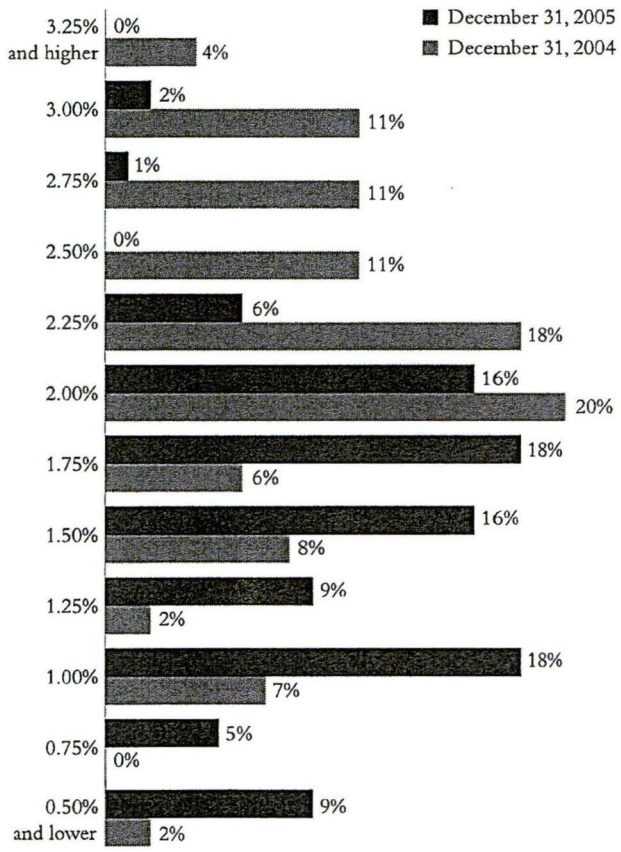


The following graph shows the spread between the discount rate and the rate of compensation increase. The spread between these two assumptions generally has a significant impact on the ABO calculated for defined benefit pension plans. The median is 1.5% as at December 31, 2005, compared to 2.3% in the previous year.

This reduction in the spread is in line with the observed decrease of 0.8% in the median discount rate and should have a measurable impact on the plan ABO.

About 57% of companies have a discount rate vs. compensation spread of 1.5% or less, compared to 19% last year. Also, only 3% of companies have a spread of 2.5% or more.

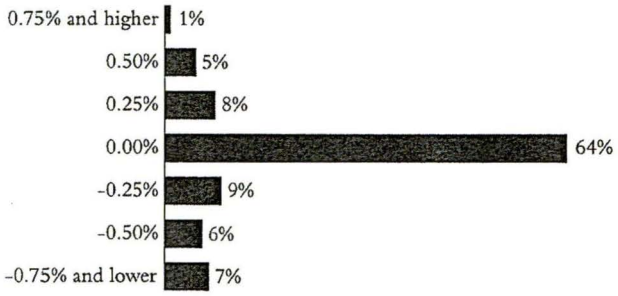
Spread: Discount Rate / Compensation



There is some debate among practitioners and management regarding the frequency of changes in the rate of compensation increase assumption. The standards provide additional guidance on this issue, especially in the CICA "Supplement to the Employee Future Benefits Implementation Guide." It states that the requirement to be internally consistent applies to all assumptions except for the discount rate. Assumptions other than the discount rate should be based on a long-term view and should be revised only with a significant change in expected long-term economic conditions.

Our survey results show that, while the discount rate has generally declined, 64% of companies have kept the same rate of compensation increase assumption as last year. About 22% of companies adjusted their assumption downward.

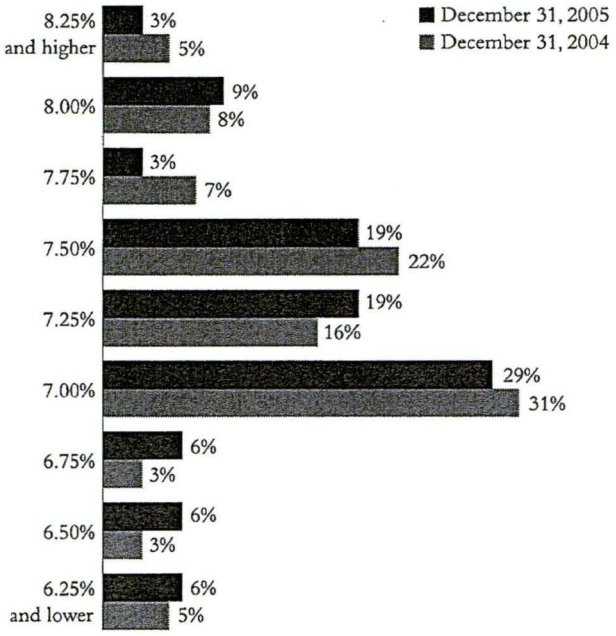
Change in Compensation Increase Assumption (2005 vs. 2004)



Expected Long-Term Return on Plan Assets

CICA 3461 specifies that the assumed rate of return on plan assets should also reflect a long-term view. The following chart shows the assumptions disclosed as at December 31, 2005 and as at December 31, 2004.

Expected Return on Plan Assets



The median expected long-term rate of return on plan assets is 7.25% which is similar to the December 31, 2004 survey. About 67% of the companies use rates between 7.0% and 7.5% inclusive.

For most plans, actual returns earned in 2005 by pension funds exceeded the accounting assumption. In fact, the actual median return for diversified pension funds was 11.9% in 2005 according to the *Performance Universe of Pension Managers' Pooled Funds* produced by Morneau Sobeco. Even with this good performance, the decline in discount rate outweighs the impact of positive investment results and should increase the pension expense in 2006 in many cases.

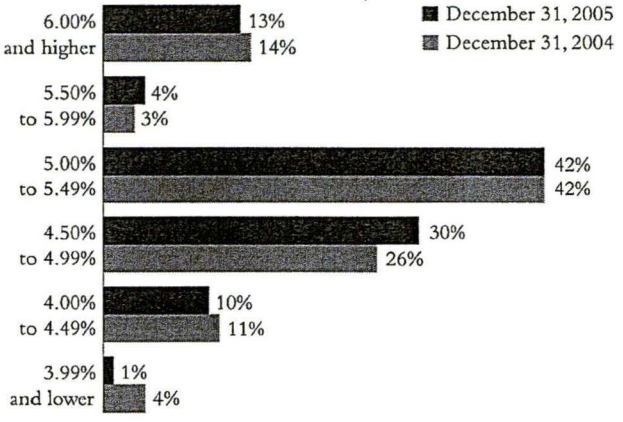
Medical Cost Trend

Where retiree medical coverage is offered, a key assumption in the valuation of the ABO is the rate of future medical cost increases. CICA 3461 provides guidance on factors that companies should consider in selecting this assumption.

Often, medical costs are assumed to increase at a higher rate in the short term. The rate of these increases is then assumed to decline gradually over time to an ultimate level.

The following charts show the December 31, 2005 medical cost trend assumptions compared to the December 31, 2004 assumptions. About 72% of companies used an ultimate trend rate between 4.5% and 5.5%. The median is 5.0%, unchanged from last year's survey.

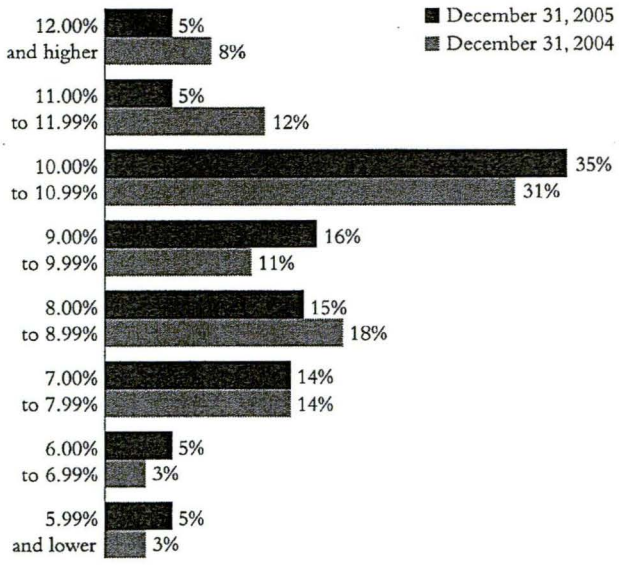
Ultimate Medical Cost Trend



There has been a slight decrease in the short-term assumption. The median is 9.5% compared to 9.9%, as at December 31, 2004. This decrease is consistent with the lower trends experienced by group benefit plans over the last two years.

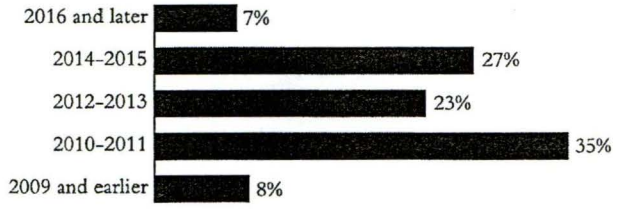
After three straight years of increase, there has been a decrease in the number of companies using an assumption of 10% or higher. In fact, 45% fall in that category compared to 50% last year. About 24% of companies have opted for an assumption below 8%.

Short-Term Medical Cost Trend



This year, we have added to our survey the year in which the medical cost reaches the ultimate rate. The median year is 2012 and the distribution is as follows:

Ultimate Medical Cost Trend
(year in which ultimate rate is attained)



Asset and Obligation Measurement Date

CICA 3461 requires that the employee future benefits be measured at fiscal year end or at a date up to three months prior to that date. All companies in our survey have a December 31st fiscal year end; therefore, some companies may use a measurement date as early as September 30th.

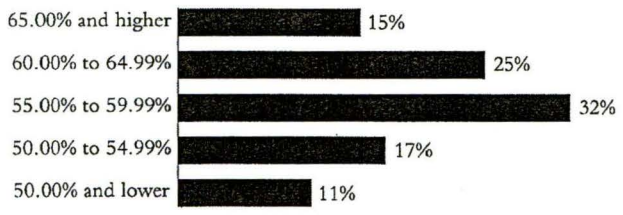
We find that 89% use December 31st as a measurement date. Among the others, a September 30th date is used most often at 9%.

Pension Plan Asset Allocation

It is required that asset allocation be disclosed by the following categories: equity, fixed income and other assets. Additional categories may be added if it helps the user of the financial statement improve his understanding of the investment risk.

The average asset allocation as at December 31, 2005, is 58% in equities, 38% in fixed income and 4% in other assets. The actual proportion of equities is shown below:

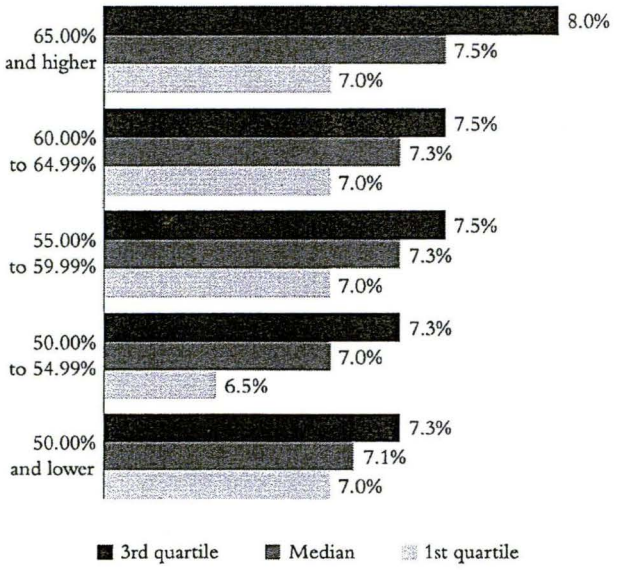
Company Distribution
by Pension Plan Equity Weighting



Since the assumption for expected long-term return on assets is based on asset allocation and expectations for future growth of these assets, we have compared the rate of return on asset assumption to the equity weighting.

Theoretically, a pension plan holding a higher percentage of equities should have a higher rate of return on asset assumption. The results from our survey, in the graph below, show that the asset return assumption generally declines with lower levels of equity held.

Long-Term Rate of Return Assumption for Varying Levels of Equity



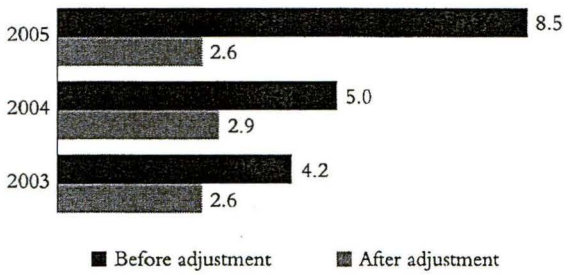
Pension Expense Before and After Adjustment

CICA 3461 allows companies to amortize the different gains and losses, past service costs and transitional liability (asset) over future fiscal periods. These amortizations are permitted due to the long-term nature of employee future benefits. It is required to disclose the difference between the expense recognized in the income statement and the expense that would prevail if there were no amortization.

In CICA 3461, we refer to "expense before adjustment" and "expense after adjustment." The latter represents the company's recognized expense presented in the income statement. The difference between these two shows the market volatility that is present in defined benefit plans.

Our 2005 survey is based on companies that have funds with pension assets totaling $138 billion. The following graph shows the difference between the pension expense before and after adjustment since 2003 in aggregate for all companies in our survey. We find that, in 2005, they have recognized a total of $2.6 billion in expense, whereas it would have been approximately $8.5 billion without any amortization mechanisms.

Pension Expense Before/After Adjustment (in billion of dollars)



The difference between $2.6 billion and $8.5 billion illustrates that, even with good returns on assets in 2005, the drop in the discount rate outweighs the impact of the gains that were realized on the asset side.

Appendix – Selecting the Discount Rate

In general, the ABO is most sensitive to the discount rate assumption. For example, a 25 basis-points decrease in the discount rate may increase the ABO by 5%. This increase could, in turn, impact the annual expense in subsequent years.

CICA 3461 provides general guidance as to the selection of the discount rate assumption. It should be determined by reference to market interest rates on high-quality debt instruments or to the interest rate at which the ABO could be settled. Although the discount rate is defined in CICA 3461, it does not prescribe a precise methodology for computing this rate.

Since Canadian standards are similar to the United States equivalent, one may look for guidance provided by the Securities and Exchange Commission ("SEC") staff. The SEC has determined that the discount rate should reflect the yield of a portfolio of high-quality fixed-income instruments (rated as AA or better by Moody's), which has the same duration as the plan's ABO. Since the duration of the plan's ABO is affected by certain demographic characteristics such as average age, average service or proportion of retirees, it should be expected that plans with similar demographics would use similar discount rates.

Information on high-quality Canadian corporate bonds (rated AA or more) is generally available and may serve as a starting point in the determination of the discount rate. Sources such as Scotia Capital provide information on high-quality corporate bond yields.

For More Information

This survey is intended to provide information regarding the assumptions disclosed by a wide range of companies and, as such, can provide an indication of trends. The assumptions used for your own employee benefits plans will depend on a number of factors. For more information, speak to your Morneau Sobeco consultant.

MORNEAU SOBECO

HUMAN RESOURCE CONSULTING AND ADMINISTRATIVE SOLUTIONS

Morneau Sobeco is an industry leader in helping organizations deliver their human resource programs. For more than four decades, we have teamed up with North American companies to help them conceive and implement effective business solutions. The size and diversity of our client base gives our consultants a unique, forward-looking perspective on all compensation, retirement, and employee benefits issues.

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514.878.9090	613.238.4272	412.687.3236	418.529.4536
ST. JOHN'S	TORONTO	VANCOUVER	WINNIPEG
709.753.4500	416.445.2700	604.877.0488	204.487.1300

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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

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-59: **Identify the utilities whose pension return assumptions are 7.5 percent or greater (reference Direct Evidence p. 90, line 15).**

Response IR-59: The Morneau Sobeco accounting assumption survey includes approximately 100 companies, of which four are utilities. The four utilities, and the assumed rate of return used for 2005 accounting purposes, are as follows:

- Atco Limited: 6.9 percent
- Canadian Utilities Limited: 6.9 percent
- Fortis Inc.: 7.25 percent
- Transalta Corporation: 7.1 percent

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-60: **Identify whether it is the advice of the Company's actuary that use of a 7.5 percent asset return assumption would be imprudent.**

Response IR-60: The advice from the Company's actuary, based on the survey trends, is that 7.5 percent would be considered an aggressive rate of return assumption for 2007 accounting purposes. His advice was to review the survey information, long-term investment return assumptions, and consider a reduction in the asset return assumption from 7.5 percent. He believed that, for 2007, 7.00 percent to 7.25 percent would be the most appropriate rate for NSPI.

The attached table shows the results of the Morneau Sobeco survey of assumed asset returns used to determine pension expense over the most recent five survey periods. This survey is based on the information provided by approximately 100 Canadian public companies in their annual information returns. There has been a consistent decrease in the assumed rate of return from 2001 to 2005 from a median of approximately 7.75 percent in 2001 to approximately 7.00 percent for 2005. NSPI's rate application is based on the use of a 7.25 percent asset rate of return assumption for 2007 – two years beyond the most recently available survey data. This is expected to be higher than the median assumption used by Canadian publicly traded corporations (therefore resulting in a lower pension cost than had the median assumption been used).

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Response IR-60: (cont'd)

Rate of return for expense calculation

Fiscal year	6.75% or lower	7% or lower	7.25% or lower	7.5% or lower	7.75% or lower	8% or lower
2001	4%	16%	22%	35%	45%	73%
2002	8%	28%	35%	54%	66%	83%
2003	11%	32%	48%	75%	83%	93%
2004	11%	42%	58%	80%	87%	95%
2005	18%	47%	66%	85%	88%	97%

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-61: **Identify the highest asset return assumption that the Company's actuary would consider to be within a reasonable range.**

Response IR-61: The Company's actuary has indicated that, based on the current economic environment, 2007 was the last year a 7.5 percent would be acceptable. However, as indicated in the response to CA IR-60, 7.5 percent would be considered aggressive for 2007.

According to the Company's actuary the current financial environment (low inflation and low real return environment) has existed since approximately 2001. As a result it is difficult for plan sponsors to suggest that the current economic environment is a short–term anomaly and that adjustments do not need to be made to assumptions.

If 7.5 percent is aggressive and overstated, the net effect of retaining a 7.5 percent assumption would be to artificially reduce current pension costs and increase future pension costs.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-62: **Identify the calculation used to estimate 2007F pension expenses, broken out so that it is possible to see the piece parts and duplicate the calculation.**

Response IR-62: Please refer to Appendix A of UARB IR-43c Attachment 1.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-63: **Provide a copy of the terms and conditions of the pension plan.**

Response IR-63: This confidential information is available for viewing at NSPI Offices.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-64: **Identify the economies that were undertaken that are enabling the Company to bring the 2006 forecast Regional costs in below the 2006 Compliance amounts. Please explain if such economies will be achieved in 2007, and if not, why not.**

Response IR-64: Variances between 2006 Regional Operations forecast and 2006 compliance amounts are primarily driven by labour transfers to other Customer Operation groups and labour savings resulting from timing of filling vacancies. The savings are not recurring.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA **REDACTED**

Question IR-65: **Reference Appendix B (Confidential), p. 40, please explain in more detail the customer deposits debit adjustment in 2005, and separately the reduced recoveries in 2005, and how these two adjustments affect the 2007F amount for recoveries.**

Response IR-65: The response to this question is confidential.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-66: **Provide a detailed breakdown of the $513,000 increased DSM costs in 2007F over 2005 (Appendix B, p. 40).**

Response IR-66: The increase of $513,000 in Other Goods and Services for 2007 over 2005 (Appendix B, p. 40) is due to a forecast expenditure of $550,000 for development of its DSM plan in compliance with a previous UARB order. Please refer to UARB IR-39b, part ii).

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-67: **Please explain in further detail the increase in administrative overhead associated with increased capital spending, Appendix B, p. 43.**

Response IR-67: The increase in the administrative overhead recovery is mainly due to an increase in the percentage of labour attributed to capital work. Administrative overhead is a function of the internal labour and contract spending related to NSPI's capital program. It is derived from an analysis of direct labour hours (capital vs. operating assignment). This allocation between operating and capital is applied to specific administrative and divisional related costs including Customer Service, Power Production, Information Technology, and their related head office rent allocation.

In 1982, the Public Utilities Board approved NSPI's application to apply overhead costs based on direct labour costs. The method continues to be applied to work orders placed before the Board for approval.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-68: **Identify the number of residential customers who live below the Statistics Canada "low-income cut-off."**

Response IR-68: NSPI does not have information regarding the income levels of our individual customers, and therefore cannot provide the requested information.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-69: **Identify the number of residential customers whose incomes place them in the first (lowest) quintile of income in Nova Scotia.**

Response IR-69: NSPI does not have information regarding the income levels of our individual customers, and therefore cannot provide the requested information.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-70: **Identify the number of residential customers whose income adjusted for family size is less than 50% of the median income for Nova Scotia.**

Response IR-70: NSPI does not have information regarding the income levels of our individual customers, and therefore cannot provide the requested information.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-71: **Identify the average electricity burden (average bill per average income) of the following groups of customers for the last five years and forecast for the upcoming five years. In providing this answer, please state and explain the sources of data, and the assumption used for average bills for each group:**

a. All residential customers
b. Residential customers with incomes below the Statistics Canada "low-income cut-off."
c. Residential customers with incomes in the first (lowest) quintile of income in Nova Scotia.
d. Residential customers with incomes adjusted for family size less than 50% of the Nova Scotia median income.

Response IR-71: a.-d. NSPI does not have information regarding the income levels of our individual customers, and therefore cannot provide the requested information.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-72: **Identify each initiative, programme or other effort on behalf of NSPI to assist low-income customers in meeting their electricity needs.**

Response IR-72: Please refer to AEC IR-12 (b).

NSPI also supports the Good Neighbour Energy Fund, administered by the Salvation Army, which provides assistance to families struggling with their winter heating costs. Please refer to AEC IR-15, AEC IR-16, AEC IR-17 and AEC IR-18.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-73: **Please provide an analysis of the receipts from miscellaneous charges on residential customers, broken out by the income of the customers paying the charges.**

Response IR-73: NSPI does not have information regarding the income levels of our individual customers, and therefore cannot provide the requested information.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-74: **Please provide all statistics in the Company's possession concerning the payment patterns of customers broken down by income and by any other socio-economic indicators and for the residential class as a whole. Payment patterns for purposes of this answer include such statistics as bills overdue less than 30 days, bills overdue 30-60 days, bills overdue 60-90 days, bills overdue over 90 days, shut-off notices, shut-off warnings, service disconnections, deposits demanded, and similar statistics.**

Response IR-74: NSPI does not have information on the income levels of individual customers, and therefore cannot provide all of the requested information.

NSPI regularly tracks the age of outstanding receivables. The aged receivable balances for active NSPI residential accounts up to the end of October for 2005 and 2006 were as follows:

	October 31, 2005	**October 31, 2006**
Current (less than 30 days)	$22,166,000	$22,791,000
30 – 60 days	$6,313,000	$5,750,000
60 – 90 days	$2,846,000	$2,731,000
90 – 120 days	$1,906,000	$1,424,000
Greater than 120 days	$1,622,000	$1,451,000
Total Accounts Receivable Balance	**$34,853,000**	**$34,147,000**

There were a total of 13,872 deposits received in 2005 from residential customers. In 2006 there were 11,715 deposits received from residential customers, up to the end of October.

For other statistics regarding payment patterns of customers please refer to AEC IR-9.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CA

Question IR-75: **Is NSPI aware of any customers who were terminated in the last five years for non-payment and who suffered illness, injury or other harm as a result of their lack of electric service?**

Response IR-75: No.