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: CME

Question IR-1: **Reference Page 3, Lines 12-17**

Explain in detail and empirically demonstrate the magnitude of increasing costs, etc. resulting from a downgrade in credit rating and when they are expected to manifest themselves.

Response IR-1: A rating of BBB- or above is classified as "investment grade". A one-notch drop in NSPI's credit would bring S&P's rating of the Company to BBB-, the lowest investment grade. A two-notch drop puts NSPI into BB, or non-investment grade territory.

In summary, a downgrade means:

- Higher borrowing costs;
- Reduced flexibility in financing alternatives;
- The potential for restrictions on who can/will do business with NSPI;
- The need to show sustained improvements in credit metrics to regain the credit rating.

The specific implications of downgrades are described below.

Borrowing Costs

- Downgrades will increase the credit spread on NSPI's debt and the bank facility fees that are incurred;
- Historically the approximate interest rate differential is 15-30 basis points (bps) per bond rating level.

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TO: NSPI

FROM: CME

Response IR-1: (cont'd)

Financing Flexibility

- NSPI's least expensive form of debt is Commercial Paper (CP). A drop in ratings would put NSPI at R-2 (high) or "adequate" versus the current rating of "satisfactory." An "adequate" rating would likely result in spotty or limited interest by investors. NSPI currently issues CP almost daily. The Company's next least expensive form of debt, Banker's Acceptances, are between 35 and 50 bps more expensive than CP.
- NSPI would expect to encounter difficulty in issuing long-term debt, especially with the terms available (i.e. terms greater than 20 years). It is also possible that the size of the shelf prospectus the Company uses to issue long-term debt could be reduced.
- A syndicate of five of the major Schedule 1 banks currently provides credit to NSPI. It is possible that in the event of a further downgrade, some of the current syndicate members would discontinue or reduce their exposure to the Company. This would require the Company to obtain financing elsewhere, likely at higher fees.
- Most pension plans have restrictions on credit quality requirements for investments held. If allowed at all, non-investment grade investments have a very small allocation in a pension debt portfolio. This again affects the marketability of issuing new securities.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Response IR-1: (cont'd)

Fuel Procurement

NSPI has numerous agreements with banks, other utilities and commodity suppliers. Although the specifics of each agreement may differ, the following implications from a downgrade would be expected:

- Counterparties could lower NSPI's credit limits, reducing the amount the Company could owe to a party at any point in time;
- In order to do business with NSPI, counterparties could demand security, either in the form of cash or a letter of credit (a letter of credit requires NSPI to pay a fee to the bank providing the facility);
- Agreements could be terminated and outstanding transactions liquidated.

In short, downgrades both limit the amount of business NSPI can do with certain counterparties, and increase the costs associated with putting cash on deposit or obtaining letters of credit (for which NSPI pays a fee). It is also possible that some counterparties could refuse to do business with NSPI altogether, either due to policy restrictions on counterparty credit ratings, or because other more credit worthy parties are available with which to transact.

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TO: NSPI

FROM: CME

Question IR-2: **Reference Page 5, Lines 13-18**

Explain in detail how the "true up" mechanism is anticipated to work and what is incorporated therein to avoid larger lump sum payments to finance the true up.

Response IR-2: All parties have expressed the intent that the new Extra Large Industrial Two Part Real Time Pricing rate reflect the actual value of load decrements or increments. Given this, a true up should not be a contentious issue.

NSPI proposes that a true-up work both ways, and if the value accrues in favor of the customer, a true-up payment will be provided. The Company will provide a monthly update of the true-up status to give the Board and ELI 2P-RTP customers regular information about expected year-end costs. If preferred, the true-up can be settled more frequently than annually.

NSPI proposes the following mechanism.

Annual Reconciliation of Shifting Rebates and Charges

The Company will, within the first two months of each calendar year, calculate the following values for the preceding year:

- Revenue received from Incremental Load (IL)
- Actual cost of supplying IL
- Credits paid for Decremental Load (DL)
- Actual avoided cost of DL

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Response IR-2: (cont'd)

A Reconciliation Value will be computed as follows:

- (Actual cost of supplying IL) – (Revenue received from IL) = IL Difference
- (Actual avoided cost of DL) – (Credits paid for DL) = DL Difference
- (IL difference) + (DL difference) = Reconciliation Value

Both the IL Difference and the DL Difference may be positive or negative. If the Reconciliation Value is negative, the Company ultimately will refund the customer. If it is positive, the Company will include the Reconciliation Value in the customer's billing. Payments may occur annually or on a mutually agreed schedule.

The Company will provide the customer, at the end of each billing month, the updated balance of the reconciliation account, year-to-date. Customers may annually review the data used to compute the Reconciliation Value.

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TO: NSPI

FROM: CME

Question IR-3: **Reference Figure 2.1**

Figure 2.1 shows a 19.6% increase in load; provide a chart showing the corresponding increase in revenue earned by NSPI from ratepayers broken down by individual class.

Response IR-3: Figure 2.1 presents the major components of increased fuel expense in 2007 and shows that, of the increase, $19.6 million is attributable to an increase in load. It does not indicate a 19.6 percent increase in load.

Please see the attachment for revenue contribution by rate class.

Nova Scotia Power Inc.
Detail of Electric Revenue
Years Ended December 31st

2007 Financial Outlook

	(3) Compliance Rates Test Year Forecast 2006	(4) Present Rates Test Year Forecast 2007	(5) Variance
Residential	**$476.1**	**$481.6**	**$5.4**
General			
Small general	28.2	28.1	($0.1)
General	243.7	244.3	$0.7
Large general	33.2	32.9	($0.3)
Total General	**305.1**	**305.3**	**0.2**
Industrial			
Small industrial	22.5	23.0	$0.5
Medium industrial	47.0	46.8	($0.2)
Large industrial	67.2	68.9	$1.8
GRLF	1.2	0.8	($0.4)
Mersey Basic Block	7.7	7.3	($0.4)
Mersey Additional Energy	10.2	10.3	$0.1
Extra large industrial interruptible	100.7	-	(100.7)
Real time pricing	11.7	-	(11.7)
Extra large industrial interruptible - 2	-	114.80	$114.8
Total Industrial	**268.1**	**271.9**	**3.8**
Other			
Municipal	15.0	15.0	($0.0)
Unmetered	23.8	24.4	$0.6
Other electric			
Total Other	**38.8**	**39.4**	**0.6**
Total In Province Electric Revenue	**1,088.1**	**1,098.2**	**10.0**
Export Sales	**8.3**	**8.5**	**$0.2**
Total Electric Revenue	**$1,096.4**	**$1,106.7**	**$10.3**

Notes:
1) Table format is taken from Appendix A of NSPI's Direct Evidence
2) Figures presented reflect whole numbers which may cause $0.1M in rounding differences on some line items.

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TO: NSPI

FROM: CME

Question IR-4: **Reference Page 7, Lines 12-25**

Explain in detail the financial impact of the 2006 coal disallowance.

Response IR-4: As a result of the 2006 coal disallowance, NSPI's revenue requirement for setting rates was set at $15.7 million lower than the expected cost of service. If this disallowance had not occurred, NSPI would have generated additional revenue from all customers in 2006.

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TO: NSPI

FROM: CME

Question IR-5: **Reference Page 7, Lines 27-28**

Provide a breakdown and detailed explanation of the amounts for change to the fuel mix and associated pricing, including the higher import power and transportation costs.

Response IR-5: Please refer to UARB IR-4 Attachments 11, 13 and 14 for calculations that support the changes to the fuel mix and associated pricing in 2007 versus 2006C.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-6: **Reference Page 8, Lines 3-5**

Provide a detailed explanation and a financial breakdown (for the total of the estimated $19.6 million) explaining how increased load results in the use of higher cost fuels, the breakdown between those fuels, what mechanisms NSPI uses to reduce the impact of this perceived effect.

Response IR-6: Please refer to UARB IR-4 Attachment 11 for the calculations that support the $19.6 million CAD estimated costs due to the load increase in 2007 versus 2006C. As load increases, NSPI dispatches its fleet based on the most economic energy source available.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-7: **Reference Page 8, Lines 20-23**

Provide a detailed explanation of a financial breakdown of the negative offsetting charges resulting from generation equipment capacity, maintenance schedules, reduced hydro and miscellaneous variance (fully enumerate these).

Response IR-7: Please refer to UARB IR-4 Attachment 13 and Attachment 14 for the breakdown of the items referred to in lines 20-23 on Page 8 of the evidence.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-8: **Reference Page 11, Lines 6-8**

Provide a copy of the Terms of Reference for Black & Veatch, copies of work provided to NSPI by the consultant and the most recent copy of NSPI's hedging policy and note the refinements made.

Response IR-8: Please refer to UARB IR-11 and Avon IR-48.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-9: **Reference Page 11, lines 8-9**

Provide a copy of NSPI's Fuel Procurement Policies and Procedures Manual.

Response IR-9: The information is available for viewing at NSPI's offices. Please refer to Liberty IR-3.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-10: **Reference Page 15, Lines 22-23**

Provide detail the others utilities referred to that form the basis of this statement including the names of the utilities, the amount of increase requested and the amount of increases received. Only the TVA was listed.

Response IR-10: Progress Energy Carolinas (PEC)

In June 2006, Progress Energy asked the North Carolina Utilities Commission (NCUC) to approve an increase in the fuel component of the rate. According to the utility, "the primary cause of the increase is the rising cost of coal and natural gas needed to run Progress Energy Carolinas' generating plants. Market prices of energy commodities have increased significantly over past price levels. Based on comparing market prices as of March 5, 2006, to historical prices -- the market price of natural gas has almost tripled in less than four years; coal market prices have doubled since 2003; and the market price of oil has almost tripled since late 2001." Progress Energy had a fuel case in 2005 in which a settlement agreement provided less than full recovery.[1]

The June 2006 rate request translated into an 8.9 percent increase for residential customers, 10.9 percent increase for commercial customers, and a 13.8 percent increase for industrial customers. In September 2006, the NCUC approved the request for higher fuel charges but spread the

[1] http://www.progress-energy.com/aboutus/news/article.asp?id=14322

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Response IR-10: (cont'd)

recovery over three years and provided that the under-recovered sums earn interest. As a result of this plan, the increases will be about 5.4 percent for residential customers, 6.6 percent for commercial customers and 8.3 percent for industrial customers.[2]

Georgia Power

In February 2005, Georgia Power asked for and received a substantial rate increase tied to higher fuel costs (Docket No. 19142, FCR-17). In March 2006 Georgia Power applied for another rate increase tied to fuel costs. (Docket 22403, FCR-18) According to its filing, "fuel costs since the FCR-17 rates went into effect have continued to exceed what the rate is recovering and such costs are projected to remain above the collection level for the foreseeable period of time. Thus, the under-collections we have seen in recent months are projected to continue if the rate is not reset to better reflect the actual costs of fuel."[3] In June 2006, the Georgia Public Service Commission partially approved the rate hike and ordered the Company to file fuel increase requests more frequently.

Pursuant to the June 2006 Order, Georgia Power proposed another increase (Docket 23540, FCR-19) in September 2006. The Public Service Commission ordered the Company to redo its rates with more current information. Georgia Power has refiled in November 2006 and is now asking for a rate increase five times what it requested in September 2006. Even though Georgia Power is able to recover its actual fuel costs, these rate requests are driven by a desire to limit under-collections. According

[2] http://www.progress-energy.com/aboutus/news/article.asp?id=14942
[3] http://www.psc.state.ga.us/cgi-bin/docftp.asp?txtdocname=90671

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TO: NSPI

FROM: CME

Response IR-10: (cont'd)

to press reports, Georgia Power's Comptroller Ann Daiss said that despite recent declines in energy prices, the rate increases are needed because "prices aren't expected to fall enough to balance other factors that govern how Georgia Power uses fuel".[4]

[4] http://www.ajc.com/search/content/business/stories/2006/11/14/1114bizgapower.html

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-11: **Reference Page 15, Lines 25-30**

Provide a breakdown as to what percentage of TVA's fuel is derived from solid fuels and HFO.

Response IR-11: TVA's generation mix in 2005 and 2004 is as follows:

	2005		2004	
Source	**Million KWh**	**Share**	**Million KWh**	**Share**
Hydroelectric	15,723	9.8%	13,916	9.0%
Coal-Fired	98,404	61.5%	94,648	61.1%
Nuclear	45,156	28.2%	46,003	29.7%
Combustion Turbine and Diesel Generators	595	0.4%	278	0.2%
Other	18	0.0%	18	0.0%
TOTAL	159,896		154,863	

Source: TVA 2005 Annual Report

TVA has no HFO-fired plants. The turbines operate on natural gas or No. 2 fuel oil.

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TO: NSPI

FROM: CME

Question IR-12: **Reference Page 19, Line 1-4**

Provide a detailed explanation including references supporting the position that "natural gas prices most likely revert to higher levels", and in particular, what is meant by "higher levels" in terms of actual pricing.

Response IR-12: Natural gas prices declined from double-digit pricing in the second half of 2005 due to primarily mild weather (notably in January 2006). Weather reduced consumption and resulted in high storage levels, including at the end of the winter. Also, during 2006, Gulf production has largely been restored, adding more supply.

Pricing for natural gas has a floor level - the price at which natural gas-fired electricity generation begins to displace coal-fired generation. When natural gas prices hit this level, the associated increase in demand causes the price to increase. In other words, in the marketplace, the price of gas "corrects itself".

The floor price also changes as a function of coal prices and other coal-related generation costs, for example, emission allowance prices. During the fall of 2006, natural gas prices in some regions occasionally approached the floor.

The expected reversion to higher price levels is based upon a return to normal weather, sustained high oil prices, and continued economic growth. At one time, as reflected in the forward price curves, the expectation was for winter prices back in the double digits. The U.S. Department of Energy in its November 2006 Short-Term

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TO: NSPI

FROM: CME

Response IR-12: (cont'd)

Outlook now forecasts an average price of about $8.50 per MMBtu (at Henry Hub) for the first quarter of 2007.

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TO: NSPI

FROM: CME

Question IR-13: **Reference Page 19, Lines 7-12**

Provide a breakdown as to the percentage of NSPI coal that is "prompt" coal.

Response IR-13: The definition of "prompt" is coal purchased in this quarter for delivery in the next quarter or coal purchased today for delivery in the next 120 days. NSPI does not categorize its 2007 purchases in this manner.

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TO: NSPI

FROM: CME **REDACTED**

Question IR-14: **Reference Page 50, Lines 1-3**

Quantify the savings for each of the two noted items.

Response IR-14: The section of evidence referred to is as follows:

The Point Tupper Marine Terminal (PTMT) has provided NSPI customers with two main sources of savings:

- Reduced freight rates and demurrage charges on belted self unloaders;
- Rail transportation costs from the port to the Point Tupper Generating Station have been eliminated.

Please refer to Avon IR-24 for an outline of the savings related to reduced freight rates and demurrage charges on belted self unloaders.

The rail rate from Martin Marietta to the Point Tupper Generating Station was [redacted] Point Tupper's 2006 solid fuel consumption forecast is [redacted]. Therefore savings of [redacted] are forecast for 2006 due to the elimination of rail transportation costs.

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TO: NSPI

FROM: CME

Question IR-15: **Reference Page 51, Lines 17-19**

Provide a detailed explanation for using an average exchange rate of $1.18 CAD for each US dollar.

Response IR-15: Please refer to CA IR-11.

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TO: NSPI

FROM: CME

Question IR-16: **Reference Page 61, Lines 2-6**

Provide an outline of the hedging program for USD, the target percentages met and a quantification of the benefits derived versus a scenario of one where no hedging was done.

Response IR-16: The hedging program is designed to reduce exposure to volatility in currency movements. The program follows a portfolio strategy.

NSPI seeks to hedge 30-50 percent of each of the forecast USD requirements in the four forward years. The forward twelve months will have a maximum of 30 percent of the forecast USD requirements open. While the future cost of the currency is not known, the program serves to reduce the volatility of FX charges to customers.

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TO: NSPI

FROM: CME

Question IR-17: **Reference Page 61, Lines 8-9**

Provide NSPI's views of markets and expert information considered and relied upon.

Response IR-17: The referenced lines state:

> "The Company monitors foreign exchange markets and considers the views of economists and currency experts from both Canada and the U.S."

NSPI consolidates market forecasts on a periodic basis.

Please refer to Attachments 1-5 for these summaries.

2006 - 2009 USD Exposure

FX Forecasts as of Sept, 2006

	2006		2007			2008	2009
	Q4	Q1	Q2	Q3	Q4		
CIBC	1.13	1.15	1.14	1.15	1.15	1.12	1.12
BoA	1.11	1.13	1.14	1.16	1.17	---	---
RBC	1.17	1.19	1.21	1.24	1.24	1.26	1.28
BMO	1.13	1.15	1.15	1.13	1.14	---	---
TD	1.14	1.14	1.15	1.14	1.14	1.11	---
BNS	1.11	1.11	1.10	1.09	1.08	1.05	1.05
Avg.	1.13	1.14	1.15	1.15	1.15	1.14	1.15

Economists' Outlooks October Publications

Bank of America –

BMO Nesbitt Burns-

Scotiabank Group – Although commodity prices have come off we expect stability and improvement in commodities to provide support to the CAD. If we enter a period of wavering global demand for the USD, Canada offers better relative value than in May and June , when the currency last traded below 1.10.

CIBC World Markets – If not for M&A action the CAD would have been under more pressure from the USD. Any further weakness in the CAD will be tempered by healthy oil and base metal prices that will still see Canada's trade surplus contrast with a huge US deficit.

2006 - 2009 USD Exposure

FX Forecasts as of Sept, 2006

	2006		2007				2008	2009
	Q3	Q4	Q1	Q2	Q3	Q4		
CIBC	1.09	1.13	1.15	1.14	1.15	1.15	1.15	1.15
BoA	1.12	1.08	1.06	1.06	1.08	1.11	---	---
RBC	1.13	1.17	1.19	1.21	1.24	1.24	1.21	1.19
BMO	1.12	1.11	1.09	1.09	1.12	1.14	1.15	1.18
BNS	1.13	1.11	1.11	1.10	1.094	1.08	1.12	1.21
Avg.	1.12	1.12	1.12	1.12	1.14	1.15	1.16	1.18

Economists' Outlooks August/September Publications

Bank of America –Recent softer data and further implosion of oil and natural gas prices have not deterred CAD buyers. Look for at least some period of softness ahead. CAD continues to benefit from twin surpluses, terms of trade valuation and a large inward foreign direct investment pipeline.

BMO Nesbitt Burns- The US$ remains under downward pressure and will affect many currencies. Commodity prices have eased, and the commodity bull is very long in the tooth. That has not prevented a rally in the C$ recently. With global economic growth to moderate a traditional boom-bust commodity cycle does not seem likely. Negative interest rate spreads have had little impact on the C$ during this rally, and are likely to remain a neutral factor as the underlying trend in commodity prices will be vastly more important. Capital flows were a minor issue earlier this year, but have become a very important factor recently.

Scotiabank Group – The recent turndown in commodity prices, and crude oil in particular, has taken the edge off of the Canadian dollar. However, we still expect the loonie to strengthen over the medium term, as it responds to continued investment inflows into Canada's burgeoning commodity sector, as well as to further weakness in the U.S. dollar.

RBC Capital –US growth is expected to slow further in H2 2006 from the 2.9% growth in Q2. Historically, CAD rallies were uncommon during a US slowdown. We expect USD/CAD to follow a similar trend that followed the 2000/01 US slowdown as the current slowdown is expected to again effect both Canadian exports and commodity prices adversely. The biggest risks to our forecast are (1) continued M&A inflows, (2) a mild or delayed slowdown in commodity prices, and (3) elevated energy prices due to devastating hurricanes and increased Middle East political tension.

CIBC World Markets – Our call for a final push to the strong end of the trading range for the C$ appears on track, propelled by softer US$ sentiment, M&A action and a still-healthy trade balance. But we would use the coming quarter as an opportunity to exit long C$ positions ahead of disappointing growth and resulting Bank of Canada rate cuts in 2007.

2006 - 2009 USD Exposure

FX Forecasts as of June 9, 2006

	2006		2007				2008	2009
	Q3	Q4	Q1	Q2	Q3	Q4		
CIBC	1.09	1.13	1.15	1.14	1.15	1.15	1.15	1.15
BoA	1.12	1.08	1.06	1.06	1.08	1.11	---	---
RBC	1.15	1.17	1.19	1.21	1.24	1.24	1.21	1.19
BMO	1.10	1.09	1.07	1.09	1.12	1.14	---	--
BNS	1.08	1.06	1.06	1.05	1.04	1.04	1.12	1.21
Avg.	1.11	1.10	1.10	1.11	1.13	1.14	1.16	1.18

Economists' Outlooks January/February Publications

Bank of America –Forecasting a general overall USD decline over the next 12 months. CAD to continue strong due to high commodity prices and current account surpluses. Expect CAD to eventually make new lows and there remains a very good chance that economic conditions in 2H/06 will warrant and deliver another BofC rate hike.

BMO Nesbitt Burns- CAD gains over the past few years were largely due to rising demand for Can products. Looking at the factors that tend to move the CAD suggest that the loonie has not yet peaked. Growth is very solid, the current account remains in surplus, as does the federal budget and commodity prices remain at high levels, with global demand still firm.

Scotiabank Group – Rising commodity prices, large twin surpluses, solid economic growth and low inflation are factors supporting the CAD. Can-US interest rate spreads are unlikely to deteriorate to a point where they might weigh on the currency. International interest in acquiring Canadian assets remains high and should add support to the CAD.

RBC Capital – Three major risks to the USD/CAD forecast of 1.21 by the end of Q2/07 are 1. The US economy fails to slow down (and as a result the BofC revisits its neutral stance), 2. The global economy and specifically China continues to expand at current levels despite a mild slow down in the US and 3. Despite US and Chinese slowdowns, oil prices continue to increase as geopolitical risk rises.

CIBC World Markets – Expect the CAD to hit 92 cents this summer when the US loses ground ahead of a Fed pause in Aug. At most we will see a gradual retreat in the second half when it becomes clearer that Canada's economy can't live foreverwith an overvalued currency, but it is going to take rate cuts in 2007 to let the CAD diverge from overseas majors that will still be gaining ground on the USD.

2006 - 2009 USD Exposure

FX Forecasts as of May 2, 2006

	2006			2007				2008	2009
	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
CIBC	1.11	1.13	1.15	1.17	1.18	1.20	1.20	1.20	1.20
BoA	1.13	1.12	1.10	1.09	1.10	1.12	1.15	---	---
RBC	1.13	1.15	1.17	1.19	1.21	1.24	1.24	1.22	1.20
BMO	1.12	1.10	1.08	1.06	1.10	1.12	1.14	---	--
BNS	1.08	1.08	1.06	1.06	1.05	1.04	1.04	1.13	1.21
Avg.	1.11	1.12	1.11	1.11	1.13	1.14	1.15	1.18	1.20

Economists' Outlooks January/February Publications

Bank of America –Forecasting a general overall USD decline over the next 12 months. CAD to continue strong due to high commodity prices and current account surpluses. BofC seems to be ok with the CAD at these levels. Political risk increases in 2007 in light of BofC concerns about that year, the fragility of the federal minority government and a likely Quebec election.

BMO Nesbitt Burns- There seems little to stand in the way of further CAD strength. Commodity prices are rising and demand looks to remain firms with the global economic outlook improving. USD weakening against most currencies due to potential pause in rate hikes, rising political tension between US and Iran and other Central banks are diversifying away from the USD.

Scotiabank Group – Rising commodity prices, strong domestic economic data, a tighter monetary policy and little sign of concern about the currency's strength at the central bank are under pinning a surge in the CAD. Increasing focus on global trade imbalances, the prospect of for a pause in the Fed tightening cycle and the potential for further central bank diversification are factors that will drive the USD broadly lower.

RBC Capital – Geopolitical risks, US and Iran, will weigh on the USD and will keep oil prices high which is supportive of CAD. There is a risk that the US economy in 2006 will grow faster than forecasted which will lead to an increased demand for CAD exports. For 2007 we are forecasting the US economy to grow at a slower rate than Canada. Historically this has been associated with a stronger CAD.

CIBC World Markets – Strong commodity prices to continue to support the CAD. US is looking to pause rate hikes soon but Canada may have 1 extra hike. To sustain these levels job creation in resources, construction and services need to continue to out pace job losses in manufacturing. Potential slowdown in the US during 2007 may cause our exports to slow and B of C to lower interest rates this causing a weakening CAD.

2006 - 2009 USD Exposure

FX Forecasts as of February 08, 2006

	2006				2007				2008	2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
CIBC	1.13	1.10	1.13	1.15	---	1.18	---	1.20	1.20	1.20
BoA	1.15	1.13	1.11	1.09	1.08	1.10	1.12	1.15	---	---
RBC	1.17	1.19	1.21	1.22	1.22	1.23	1.24	---	1.22	1.20
BMO	1.15	1.13	1.14	1.16	1.18	1.19	1.19	1.18	---	--
BNS	1.14	1.13	1.12	1.10	1.09	1.09	1.08	---	1.13	1.21
Avg.	1.15	1.14	1.14	1.14	1.14	1.16	1.16	1.18	1.18	1.20

Economists' Outlooks January/February Publications

Bank of America – Conservative Government is generally CAD positive. However Harper eased exporters concerns by advocating that "a strong CAD did not necessarily mean a rising CAD". BoA remains CAD bullish for the remainder of the year. Near term CAD should be trading closer to 1.17 on the basis of yield spreads. A call for CAD strength this year is based upon twin surpluses in contrast to deterioration in the structural outlook of the US twin balances [budget and current account]

CD Howe - Their monetary policy council said "there is a possibility that Canada's economy might be able to grow consistently faster without rising inflation. Rising inflation attracts increases in the Bank Rate which contributes to a stronger CAD.

Scotiabank Group – Robust energy prices will prolong the strength of CAD. Although currency strength risks dampening demand for Canadian goods and services to a degree economic prospects appear positive at the present, and the Bank of Canada is poised to continue raising interest rates as a result. Strong foreign investment into the energy sector, Canada's sustained twin surpluses and the prospect of further USD adjustment suggest CAD will remain higher for longer. USD will not see support until 1.1190.

RBC Capital – Technically USD/CAD is oversold and could overshoot as low as 1.12 in coming weeks, then resumes appreciating towards our March end target of 1.17. CAD will be supported by persistently high energy prices. RBC economists expect interest rate markets will fully price in 100bp of increase in Canada rates. Our longer term view is USD/CAD is considerably under-valued. We forecast Q1and Q2 at 1.17 and 1.19.

CIBC World Markets – "Last Spike for CAD" Our 1.10 target might be a bit of a stretch, but the CAD should rally with BoC tightening in March and the Fed on hold and with oil/ metals prices firm. But slowing growth and the end of BoC hikes will see CAD give up that gain over the balance of the year. Core inflation has gone nowhere in Canada, a fact that should allow the BoC to call it quits on rate hikes at its late-April, rate setting date. That should see CAD selling in favour of other majors.

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: CME

Question IR-18: **Reference Page 61, Lines 17-19**

Provide copies of any reports on its risk management strategies.

Response IR-18: NSPI does not prepare reports on its foreign exchange risk management strategies. The Company does, however, maintain status updates on its currency exposure by year. Please refer to CA IR-11.

Please refer to CME IR-16, which explains NSPI's portfolio approach to foreign currency exchange rates.

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: CME

Question IR-19: **Reference Page 73, Lines 1-2**

Provide a copy of the latest Terms of Reference.

Response IR-19: Please refer to CA IR-38.

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: CME

Question IR-20: **Reference Page 86, Lines 5-7**

Provide a breakdown for the increase in costs by consultant and for staff. Provide the total staff budget, titles for staff in this function and their job descriptions. Provide the Terms of Reference for consultants and/or types of work and assignments.

Response IR-20: Please refer to Appendix B page 9 of the Direct Evidence for a detailed breakdown of the overall $200,000 variance. The changes in NSPI staff and consulting costs from 2006C to 2007F are as follows:

NSPI staff	$(166,000)
Consulting	$ 319,000

The 2007 Forecast for total staff labor is $843,000.

Staff positions are as follows:

General Manager, Communications and Public Affairs
Overall responsibility for planning, execution and evaluation of NSPI's communications and public affairs strategy, with overall responsibility for the following team activities:

- Communications planning and services;
- Media relations;
- Issues management;
- Government relations;
- Community relations; and
- Corporate sponsorships and charitable donations.

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: CME

Response IR-20: (cont'd)

The Communications and Public Affairs works closely with the Customer Service and Customer Operations groups to ensure consistent and effective two-way communications with the Company's customers. The team supports the Human Resources team in order to deliver strategic and effective communications to the Company's 1,600 employees.

Manager, Regional Affairs

- Manages relationships with federal government contacts, particularly with respect to NSPI's climate change strategy;
- Provides government relations counsel and support to NSPI's communications and public affairs team, management and business units;
- Works with appropriate NSPI regional staff to address local operational issues with elected representatives from each level of government.

Manager, Public Affairs

- Acts as lead media spokesperson for NSPI;
- Provides counsel to NSPI business units for all media enquiries;
- Shares responsibility for continuous improvement of NSPI's crisis communications plan with Senior Public Affairs Consultant;
- Provides communications support to the CEO and leadership team members before and during public events.

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: CME

Response IR-20: (cont'd)

Communications Coordinator

- Responsible for administrative support for the Communications and Public Affairs team;
- Coordinates all requests for sponsorship and donations to NSPI;
- Organizes media and stakeholder events;
- Coordinates advertising requests.

Senior Public Affairs Consultant

- Provides senior-level communications counsel, planning and services to NSPI's business units;
- Responsible for communications planning activities and issues management on regulatory matters;
- Serves as crisis communications manager, sharing responsibility for continuous improvement of NSPI's crisis communications plan with Manager, Public Affairs.

Senior Communications Advisor

- Provides communications and media relations counsel to a number of NSPI business units, particularly customer service, renewable energy and environment;
- Produces corporate video and other multi-media presentations for internal and external audiences;
- Acts as alternate media spokesperson for NSPI.

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: CME

Response IR-20: (cont'd)

Communications Specialist

- Prepares a range of communications materials for internal and external audiences;
- Acts as internal communications lead, working with the Human Resources team;
- Responsible for ensuring NSPI's website remains current.

Director, Government Relations

- Responsible for building and maintaining the Company's relationship with federal, provincial and municipal governments;
- Integrates government relations planning with NSPI's corporate business strategy, corporate communications planning and customer relations strategy;
- Develops strategy and approach on government issues affecting the Company.

Director, Investor Relations and Public Affairs

- Directs development and execution of Communications and Public Affairs planning;
- Responsible for managing relations with investment community;
- Oversees corporate sponsorship and charitable giving.

The increased consulting costs are mainly attributable to contracting services commissioned by the Corporate Communications group (Appendix B).

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: CME

Question IR-21: **Reference Page 86, Lines 13-28**

Provide a breakdown for the increase in costs by consultant and for staff. Provide the total staff budget, titles for staff in this function and their job descriptions. Provide the Terms of Reference for consultants and/or types of work and assignments.

Response IR-21: Please refer to Appendix B, page 17 of NSPI's Direct Evidence for a detailed breakdown of the overall $500,000 variance. The increases in NSPI staff and consulting costs from 2006C to 2007F are as follows:

NSPI staff	$501,000
Consulting	$341,000

The total staff budget for 2007 is $1.1 million. Staff positions are as follows:

Regulatory Counsel:
NSPI's legal counsel for regulatory-related matters.

Director, Regulatory Affairs:
Responsible for overall management of the Regulatory Affairs group.

Rate Case Manager, Fuels:
Responsible for managing regulatory compliance aspects of fuel procurement.

Manager, Regulatory Affairs:
Responsible for managing regulatory aspects of NSPI operational groups, code of conduct compliance and capital submissions.

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: CME

Response IR-21: (cont'd)

Senior Cost and Rates Specialist:
Responsible for preparation and maintenance of the Cost of Service Study and administration of existing rates.

Administrative Assistant:
Provides administrative support for department.

Pricing Specialist:
Responsible for pricing and revenue analysis for rate design and support.

Regulatory Project Manager:
Responsible for management of regulatory projects such as general rate applications.

Senior Technical Advisor:
Responsible for providing technical advice and support regarding the design and administration of specialized rates such as the Extra Large Industrial Interruptible Rate.

Project Administrator:
Responsible for providing project coordination and support for regulatory projects such as general rate applications.

Senior Regulatory Analyst:
Responsible for providing technical support for regulatory projects such as general rate applications and operational submissions.

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: CME

Response IR-21: (cont'd)

Regulatory Analyst:
Responsible for providing technical support regarding regulatory aspects of NSPI's operations, customer service and capital projects.

The increased consulting costs are mainly attributable to increases in regulatory activity as discussed in Appendix B of the Direct Evidence. Consulting costs include the costs of UARB-contracted consultants and the Consumer Advocate.

Please refer to UARB IR-51a for the types of directives that the increased costs would cover.

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: CME

Question IR-22: **Reference Page 89, Lines 14-17**

Provide a copy of all relevant actuarial information and assumptions utilized to support the adjustment of the discount rate to 5.25%.

Response IR-22: The discount rates used for accounting purposes is based on the yield of "A" quality bonds with the same duration as the obligations, rounded to the nearest 25 basis points. The average duration of NSPI's pension obligations is approximately 14 years.

The yield of 5.25 percent was determined based on December 31, 2005 yields of "AA" bonds for a 14 year duration (4.95 percent), adjusted upwards by 20 basis points (5.15 percent) for the estimated difference in yield between "AA" and "A" bonds at that date, rounded to the nearest 25 basis points (5.25 percent). The following table, provided by the Company's actuary, shows the "AA" bond yields for selected durations as at December 31, 2005.

10	**4.91%**
11	**4.92%**
12	**4.93%**
13	**4.94%**
14	**4.95%**
15	**4.96%**
16	**4.98%**
17	**5.00%**
18	**5.02%**

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: CME

Response IR-22: (cont'd)

In accordance with accounting standards, the yield determined as at December 31, 2005 is used for 2 purposes: a) to determine the accrued benefit obligation as at that date and b) to determine expense for 2006.

The discount rate for purposes of 2007 projected expense was determined based on a similar methodology, using bond yields as at July 31, 2006.

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: CME

Question IR-23: **Reference Page 89, Lines 10-20**

Provide a copy of all relevant actuarial information and assumptions utilized to support the adjustment of the Return on Asset assumption to 7.25%.

Response IR-23: Please refer to CA IR-57, CA IR-58, CA IR-60 and CA IR-61.

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: CME

Question IR-24a: **Reference Page 92, Lines 3-7 and Figure 4.22**

Provide a breakdown of the increase in expense for each of the enumerated initiatives and the assumptions explained in detail on which the increases are based.

Response IR-24a: Please refer to UARB IR-44.

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: CME

Question IR-24b: **Reference Page 110, Lines 15-20**

Provide the list of Canadian utilities used in determining the average ROE.

Response IR-24b: This confidential information is 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: CME

Question IR-25: **Reference Page 113, Lines 13-20**

Provide examples of industrial-commercial users that have been lost and the magnitude of the losses for each customer where these users have been afforded the opportunity to bypass, etc.

Response IR-25: There are no such examples. The evidence identifies risk factors not historical events. The passage referred to above is in the section of Dr. Morin's evidence entitled "Business Risk" in which he discusses varies factors affecting the perception of risk from an investor point of view.

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: CME

Question IR-26: **Reference Page 113, Lines 22-39**

Provide a breakdown of costs experienced over the years by NSPI that have increased costs outside of property damage that was not insured. Also, provide an explanation of the risk management exposures and measures that NSPI has undertaken to mitigate the risks associated to weather.

Response IR-26: Examples of costs incurred by NSPI that were weather related and not insured include the following:

• Hurricane Juan (September 2003)	$6.0 million
• Ice storm (November 2004)	$2.8 million
• Wind storm (November 2005)	$1.7 million
• Snow/wind storm (December 2005)	$1.7 million

In each case the costs associated with the weather event exceeded the costs provided for in rates. The costs were paid for by the Company.

In order to mitigate weather related risks, NSPI designs, operates and maintains the system within good utility practices. NSPI has also presented to the UARB a report that recommends increased spending on the NSPI Distribution Vegetation Management program to better storm harden the system.

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: CME

Question IR-27: **Reference Page 116, Lines 8-12**

Provide a copy of the S&P study referred to in the evidence.

Response IR-27: Please refer to Attachment 1.

STANDARD &POOR'S RATINGSDIRECT

RESEARCH

Nova Scotia Power Inc.

Publication date: 24-Dec-2003
Credit Analyst: Damian DiPerna, Toronto (1) 416-507-2561; Daniel Parker, CFA, Toronto (1) 416-507-2559

Corporate Credit Rating

BBB+/Stable/--

Business Profile

1 2 3 [4] 5 6 7 8 9 10

Financial policy:
Below average
Debt maturities:
2003 C$150 mill.
2004 C$140 mil.
2005 C$100 mil.
2006 C$40 mil.
2007 C$0 mil.
Bank lines:
Nova Scotia Power Inc. has a C$100 million demand line of credit for general corporate purposes and C$350 million of committed lines of credit to support a CP program.

Outstanding Rating(s)

Nova Scotia Power Inc.	
Sr unsecd debt	
Local currency	BBB+
Pfd stk	
Local currency	BBB-
Emera Inc.	
Corporate Credit Rating	BBB+/Stable/--
Sr unsecd debt	
Local currency	BBB

Corporate Credit Rating History

Mar. 14, 2001	A-
Dec. 21, 2001	BBB+

Company Contact
Zeda Redden (1) 902-428-6848

Major Rating Factors

Strengths:

- A supportive regulatory environment with cost-of-service regulation mitigates most operating risks.
- A dominant industry position due to monopoly service franchise, geographic isolation, and limited interconnections presently provides protection against potential competitors.
- Market supply (capacity) exceeds demand load profile.
- More-than-sufficient operating cash flows provide support for maintenance-oriented capital expenditures for the next three to five years.

Weaknesses:

- Earnings pressures are expected to slowly increase from electricity industry restructuring and the

introduction of natural gas as an energy alternative, creating the possibility for stranded assets.

- Comparatively weak markets with low growth outlooks could exacerbate the effect of competitive pressures.
- A significant portion of power cost is recovered through rates (full pass-through); however, a small portion has to be hedged to provide protection against commodity risk.
- Relatively weak financial measures could come under pressure, constrained by 35% -40% deemed equity regulatory guidelines.

Rationale

The ratings on Halifax, N.S.-based electric utility company Nova Scotia Power reflect the consolidated business and financial risk profile of parent corporation Emera Inc., (BBB+/Stable/A-1(Low)), based on Standard & Poor's Ratings Services' consolidated rating methodology. The parent and operating company credit profiles are further linked because ultimately Emera is responsible for maintaining a common equity thickness at the regulated electric utility. Given a lack of sufficient regulatory insulation, the ratings on Nova Scotia Power are equalized with those on Emera.

The ratings on Emera primarily reflect the risk profile of its two regulated electric utilities, Nova Scotia Power and Bangor Hydro Electric. Nova Scotia Power, a vertically integrated, electric utility, accounts for about 75% of consolidated assets and 90% of funds from operations. Bangor Hydro-Electric Co. Corp. is a utility that provides transmission and distribution service to about 107,000 customers based in southeast Maine. Together, the regulated utility operations generate approximately 90%-95% of Emera's consolidated assets and cash flow. Although Emera's nonregulated businesses do not materially influence the ratings at present, they have a higher risk profile.

Nova Scotia Power's above-average business profile is largely supported by a favorable regulatory environment and its dominant industry position. The existing cost-of-service rate-of-return regulation is generally viewed as supportive of credit quality because it mitigates against most operating risks and allows for the full recovery of fuel and purchased power costs, and capital expenditures including expenditures associated with environmental compliance. The company's business profile also is strengthened by its dominant industry position, largely due to Nova Scotia Power's monopoly service franchise, geographic isolation, and limited interconnections. Although Nova Scotia Power services a mature market with relatively weak economic fundamentals, current market supply (generating capacity) exceeds the demand load profile, and the utility should continue to generate operating cash flows in excess of capital expenditure requirements that will be paid out to Emera in dividends.

Emera's financial profile is below average and materially weaker than its business profile. The balance-sheet strength of Canadian utilities, however, is dictated by regulatory guidelines (deemed equity components). The somewhat aggressive use of leverage by Canadian utilities has historically been supported by monopoly service franchises and stable industry fundamentals. The North American trend toward deregulation and the Nova Scotia government's announced industry restructuring could increase the company's business risk profile. A weaker business profile would require a more robust financial profile to maintain the same credit rating.

Emera's utility operations provide a stable stream of cash flow, which combined with its good liquidity position and financial flexibility help to mitigate its relatively weak financial profile (debt to capitalization 56%; FFO interest coverage 2.4x) and adequately supports its current ratings. Standard & Poor's expects Emera will generate free cash flow and will strive to further reduce debt.

Nova Scotia Power is a predominantly coal-based integrated electric utility. The company's operations account for 97% of the generation, 99% of the transmission, and 95% of the distribution services in the Province of Nova Scotia. Wholesale and export activities accounted for about 4%-5% of energy sales and gross revenues. The utility's above-average business profile is supported by a favorable regulatory environment and a dominant industry position. Nova Scotia Power's business risk profile could, however, come under some pressure in the next few years as the provincial government gradually introduces competition in the electricity industry. As part of its new comprehensive energy strategy, the Nova Scotia government announced in December 2001 that it will gradually phase in competition in the electricity industry in the next five years. The industry restructuring will require Nova Scotia Power to unbundle key utility functions, although it will not be compelled to divest any physical assets. Transmission and distribution services will continue to be regulated monopoly services, although the first stage of the restructuring will involve open access to the transmission grid to allow for wholesale competition. Wholesale customers account for less than 2% of energy sales and gross revenues so the initial effect of

this first stage is not expected to be significant. Thereafter, a competitive bidding process will be implemented for the construction of new generation capacity. The utility will face competition from other, possibly more cost efficient, generators. Any new generation capacity Nova Scotia Power builds will remain regulated under a cost of service basis, and will become part of rate base. The pace of change and the degree of regulatory support in light of a more competitive operating environment will be key factors that will influence future rating actions.

Liquidity.

Standard & Poor's assesses Emera's liquidity to be adequate given its stable cash flow generation, its ability to access capital markets, and its available bank facilities. Consolidated cash flows are sufficient to meet its near- and medium-term obligations (capital expenditures of C$100 million-C$150 million annually and common and preferred dividends of about C$107 million annually). Capital expenditures are primarily dedicated to maintaining its transmission and distribution operations and fund modest growth. Electricity supply in the province is currently sufficient to meet demand, but 150 MW of new supply could be required by 2007-2008. With about C$1.1 billion in available bank lines of credit, Emera and its subsidiaries have adequate funds available for operating purposes. The lines of credit also serve to back up Nova Scotia Power's C$350 million CP program and help finance possible acquisitions at Emera. Nova Scotia Power and Emera each have access to a C$300 million MTN program.

Outlook

The stable outlook reflects the expectation that the industry restructuring in Nova Scotia will be only marginally detrimental to Nova Scotia Power's business and financial profiles. Emera is expected to limit acquisitions and activity in higher risk nonregulated businesses, and to modestly improve its financial profile in the near term. Standard & Poor's also expects that Nova Scotia Power will be able to recover the C$160 million paid to the Canada Custom & Revenue Agency or recuperate the cost through future rates.

Damages from hurricane Juan are estimated at about C$12.6 million, which includes C$4 million expended in third-quarter 2003 and C$8.6 million in capital cost that Standard & Poor's expects will be recovered through future rates.

Table 1

Nova Scotia Power Inc.--Peer Comparison*

Industry Sector: Electric Utilities--Canada

	--Average of past three fiscal years--				
	Sector median	**Nova Scotia Power Inc**	**Atco Ltd.**	**Fortis Inc.**	**Terasen Inc.**
Rating		BBB+/Stable/--	A+/Watch Neg/--	A-/Watch Neg/--	BBB/Stable
(Mil. C$)					
Sales	811.6	844.8	3,342.2	642.8	1,559.7
Net income from cont. oper.	104.9	109.0	137.6	49.2	105.4
Funds from oper. (FFO)	192.3	238.6	538.9	109.2	205.1
Capital expenditures	133.8	121.7	572.3	174.4	495.4
Total debt	1,357.5	1,473.3	2,877.3	948.4	2,383.4
Preferred stock	9.0	256.4	100.0	8.3	125.0
Total capital	2,746.4	2,796.9	5,147.5	1,490.1	3,443.9
Ratios					
EBIT interest coverage (x)	2.4	1.9	1.7	2.0	1.7
FFO interest coverage (x)	3.4	2.6	3.4	2.5	2.1
Return on common equity (%)	8.8	9.6	12.9	10.2	13.6
NCF/capital expenditures (%)	81.3	94.5	75.0	44.9	29.7
FFO/total debt (%)	18.4	15.3	19.0	12.8	8.8
Total debt/capital (%)	55.3	55.3	56.9	65.3	70.8

*Adjusted for off-balance-sheet obligations and capital operating leases. NCF--Net cash flow.

Table 2

Nova Scotia Power Inc.--Financial Summary*

Industry Sector: Electric Utilities -- Canada

	--Average of past three fiscal years--		--Fiscal year ended Dec. 31--				
Rating history			BBB+/Stable	BBB+/Stable	N.R.	N.R.	N.R.
	Sector median	**Issuer**	**2002**	**2001**	**2000**	**1999**	**1998**
(Mil. C$)							
Sales	811.6	844.8	876.5	838.6	819.2	798.9	759.1
Net income from cont. oper.	104.9	109.0	96.3	117.1	113.6	114.5	96.6
Funds from oper. (FFO)	192.3	238.6	236.4	223.5	256.0	251.6	230.2
Capital expenditures	133.8	121.7	131.3	112.4	121.4	118.9	132.1
Total debt	1,357.5	1,473.3	1418.1	1524.3	1477.6	1507.7	1601.1
Preferred stock	9.0	256.4	260.0	260.0	249.1	231.3	200.0
Total capital	2,746.4	2,796.9	2806.7	2832.2	2751.7	2755.5	2794.8
Ratios							
EBIT interest coverage (x)	2.4	1.9	1.8	1.9	1.9	1.9	1.7
FFO interest coverage (x)	3.4	2.6	2.7	2.5	2.8	2.7	2.5
Return on common equity (%)	8.8	9.6	8.1	10.4	10.4	10.6	9.1
NCF/capital expenditures (%)	81.3	94.5	108.0	44.8	125.9	141.4	112.0
FFO/total debt (%)	18.4	15.3	15.3	14.2	16.4	15.4	13.5
Total debt/capital (%)	55.3	55.3	53.2	56.3	56.3	57.4	60.2

*Adjusted by capital operating leases. NCF --Net cash flow.

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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: CME

Question IR-28: **Reference Page 132, Lines 14-21**

Provide a breakdown and explanation of the enumerated components effect on cash flow.

Response IR-28: The breakdown and explanation of the enumerated components' effects on cash flow is as follows:

Average Capital Assets have decreased by $30.0 million as a result of Board-approved increases in depreciation rates (accumulated depreciation is outpacing capital additions). This has a positive effect on cash flow.

Average Cash Working Capital allowance has increased by $12.0 million and has a negative effect on cash flow. Please refer to Appendix A, Table 17 of the Direct Evidence for the categories included in Cash Working Capital calculations.

Average Material and Supplies inventory includes fuel and material inventories and has decreased by $3 million due to lower anticipated inventory levels. This has a positive effect on cash flow.

The Long-Term Receivable has decreased by $16 million due to an anticipated inflow of cash in November 2007. This has a positive effect on cash flow.

Deferred Charges and Credits include those charges and credits that are to be amortized over time and have decreased by $32 million due to continued amortization. This has a positive effect on cash flow.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-29: **Reference Page 140, Lines 29-31**

Adjusting for the re-entry of a large industrial customer, provide a detailed explanation including assumptions as to why load increases are above historical patterns.

Response IR-29: The premise of this question is incorrect.

The table below shows an estimate of load growth rates if the large industrial customer had been at full load in 2006. This table illustrates that NSPI's growth rate forecasts for 2007 are within historical ranges.

	Residential		Commercial		Industrial		Losses	Requirement	
Year	GWh	Growth	GWh	Growth	GWh	Growth	GWh	GWh	Growth
2000	3,672	4.6%	2,829	2.3%	3,930	1.5%	809	11,240	3.4%
2001	3,741	1.9%	2,959	4.6%	3,873	-1.5%	730	11,303	0.6%
2002	3,829	2.3%	2,996	1.3%	3,799	-1.9%	877	11,501	1.8%
2003	4,010	4.7%	3,091	3.1%	4,046	6.5%	862	12,009	4.4%
2004	4,114	2.6%	3,188	3.1%	4,212	4.1%	874	12,388	3.2%
2005	4,114	0.0%	3,223	1.1%	4,215	0.1%	785	12,338	-0.4%
2006*	4,204	2.2%	3,275	1.6%	4,305	2.1%	935	12,720	3.1%
2007	4,327	2.9%	3,345	2.1%	4,388	1.9%	921	12,981	2.1%

*Forecast modified to include addition of Large Industrial Customer.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-30: **Reference Page 149, Lines 1-11**

Provide a breakdown by customer of the industrial customers of their last 3 years consumption and the estimates for 2007.

Response IR-30: The requested information is customer confidential. NSPI will provide this information to the UARB if requested.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-31: **Reference Page 149, Figure 7.10**

Provide an explanation as to the variances from forecast to actual that are exhibited in the table. Learning from the past variances what measures has NSPI taken to learn from them.

Response IR-31: Unlike the residential and commercial sectors, the industrial sector load, for example, can be significantly affected by changes to the production patterns of a single customer, or by international market forces.

To develop its forecast, NSPI conducts annual surveys with the largest of its industrial customers to estimate their planned electricity requirements. NSPI's Account Managers regularly meet with these customers to discuss upcoming changes to their operation.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-32: **Reference Page 150, Lines 1-13**

Provide a detailed explanation of the assumption and other information that NSPI relied upon to develop its forecast.

Response IR-32: Please refer to Appendix F, pages 15-17.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-33a: **Reference Page 151, Lines 17-21 and Page 152, Lines 1-5**

Provide a detailed explanation and analysis as to the line losses.

Response IR-33a: Forecast sales are divided by class into two groups, distribution sales (customers served from distribution level voltages) and transmission sales (customers served from higher, transmission level voltages).

The distribution loss percentage forecast is the average of the historical distribution losses divided by distribution sales. Similarly, the transmission loss percentage forecast is the average of the historical transmission losses divided by transmission load. These calculations for 2007 are as follows:

Distribution sales for 2007 are forecast to be 8,350 GWh. The average percent of distribution losses to distribution sales is calculated from previous years to be approximately 6.2 percent. Therefore the distribution losses for 2007 are calculated as 8,350 GWh x 6.2 percent = 518 GWh.

The total transmission load for 2007 is calculated as the sum of distribution sales plus distribution losses plus transmission sales = 8,350 GWh + 518 GWh + 3,731 GWh = 12,599 GWh.

The average percent of transmission losses to transmission load is calculated from previous years to be approximately 3.0 percent. Therefore the transmission losses for 2007 are calculated as 12,599 x 3.0 percent = 381 GWh

Total Losses = Distribution losses + Transmission Losses
= 518 GWh + 381 GWh = 899 GWh

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Response IR-33a (cont'd)

Total Load = Sales + Losses
= 8,350 GWh + 3,731 GWh + 899 GWh = 12,981 GWh

Losses as percentage of Total Load = 899 GWh / 12,981 GWh = 6.93 percent

Note: Some of the losses figures may vary slightly from the Direct Evidence due to rounding.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-33b: **Reference Page 152, Lines 22-28 and Page 153, Figure 7.14**

Provide a detailed explanation of the assumption and other information that NSPI relied upon to develop its forecast.

Response IR-33b: A detailed explanation of the assumptions and other information used to develop NSPI's load forecast is provided in NSPI's Load Forecast Report in Appendix F of NSPI's Direct Evidence.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-34: **Reference Page 6, Lines 11-13**

Provide fuel forecasts as to pricing, supply and transportation from all external consultants and other sources (including journals and publications) and internal sources.

Response IR-34: This confidential information is available for viewing at NSPI offices.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME **REDACTED**

Question IR-35: **Reference Page 8, Lines 16-20**

Provide a breakdown of the expected financial benefit of this domestic coal supply and a list of any other attributes resulting from this purchase (e.g. environmental, savings in transportation, etc.)

Response IR-35: [redacted].

The following are the attributes that were considered:

- Transportation cost
- Sulphur content
- Heating value
- Ash content
- Security of supply
- Supply and supplier diversification.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-36: **Reference Page 36, Lines 1-9**

Provide copies of all clauses related to "credit enhancements" in NSPI fuel contracts.

Response IR-36: NSPI fuel contracts are available for viewing at NSPI Offices.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME **REDACTED**

Question IR-37: **Reference Page 41, Lines 24-28**

Provide an outline of the hedging program, the target percentages met and a quantification of the benefits derived versus a scenario of one where no hedging was done.

Response IR-37: The response to this question is confidential.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME **REDACTED**

Question IR-38: **Reference Page 47, Lines 8-10**

When in 2007 does the [redacted] expire and what assumptions has NSPI made about renewal in terms of pricing that affects the test year.

Response IR-38: NSPI has successfully extended a new contact with [redacted] with estimated [redacted] year.

This benefit was included in NSPI's Rate Application.

NOVA SCOTIA UTILITY AND REVIEW BOARD

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME **REDACTED**

Question IR-39: **Reference Page 47 and 48**

Explain the pricing of the coal used in the test burns and how does it compare (favorably or unfavorably) with respect to existing sources. If there is a benefit, to what extent can this kind of coal be purchased in 2007 and the expected financial benefit.

Response IR-39: The prices below are as delivered prices and do not include adjustments for SO_2 heating value and other factors. The delivered price of the [redacted].

The delivered price of the coal for test burn at Point Tupper was as follows:

[redacted]

The delivered price of the existing (contracted) low sulphur volumes for 2007 is as follows:

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME **REDACTED**

Response IR-39: (cont'd)

[redacted]

[redacted]

NSPI continues to include the suppliers of qualified fuels on market solicitations and evaluates bids when offered. NSPI will consider purchasing these fuels when they are evaluated as the best alternative on a fully delivered basis. Testing is used to qualify a fuel as acceptable (or not) for use.

NSPI's policies require any coal be tested prior to being eligible for commercial consideration.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME **REDACTED**

Question IR-40: **Reference Page 54, Lines 4-6 and Figure 2.7**

Provide in detail including supporting documentation the basis for the assumption [redacted] per barrel for HFO.

Response IR-40: Please refer to Confidential Liberty IR-43 Attachment 3 for the calculation of the forecast price per barrel of HFO in 2007.

Please refer to Confidential Liberty IR-43 Attachment 14 for the date and the forward curve that was used in calculating the forecast costs of HFO in 2007.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-41: **Reference Page 56, Lines 25-27**

Provide the background information and final version of NSPI's consensus forecast.

Response IR-41: Please refer to Liberty IR-64 for the background information for NSPI's consensus forecast.

Please refer to Page 57, Figure 2.10 in NSPI's Direct Evidence for the final version of NSPI's consensus forecast.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-42: **Reference Page 59, Lines 30-32 and Page 60, Lines 1-2**

Provide the cost per KWh or suitable reference for each of the renewable energy suppliers under the executed PPAs.

Response IR-42: Please refer to UARB IR-25.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-43: **Reference Page 62, Lines 18-19**

Provide a detailed explanation of the causes including a breakdown by rate class that result in the increase in load growth of 111 GWh.

Response IR-43: The 2006C forecast reflects actual results up to the end of the year 2004, the economic forecast from February 2005, and assumptions, including large customer forecasts from the spring of 2005. The table below shows the energy change by class between the 2006C and the 2007 forecasts.

Class	2006C GWh	2007 GWh	Increase GWh	Change %
Residential	4,200	4,257	58	1%
Small General	246	242	(4)	-2%
General Demand	2,472	2,479	6	0%
Large General	426	421	(4)	-1%
Unmetered	110	112	3	2%
Small Industrial	247	253	6	2%
Medium Industrial	587	585	(2)	0%
Large Industrial	1,053	1,079	26	2%
GRLF	17	12	(5)	-31%
Bowater Mersey	368	368	-	0%
ELIIR/ELI 2P-RTP	2,076	2,076	-	0%
Exports	98	79	(19)	-19%
Losses	854	899	44	5%

A detailed explanation of the 2007 forecast by sector is included in Section 7.0 of the Direct Evidence.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-44: **Reference Page 63, Lines 4-15**

Identified are 4 key fuels to meet the increase in load. Provide a breakdown of the amount to expected be generated and the cost for each fuel type used.

Response IR-44: Please refer to UARB IR-4 Attachment 11 for the calculation of the load increase in 2007 versus 2006C.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME **REDACTED**

Question IR-45: **Reference Page 85, Lines 1-3**

Provide a detailed explanation as to why insurance costs will increase. Additionally, provide a breakdown of cost for each type of insurance (property, general liability, umbrella liability, directors' and officers', automobile, boiler and machinery and others, the increases experienced by each in the last renewal, the loss ratio for each policy type for the last year and last 3 years and their respective renewal dates.

Response IR-45: The response to this question is confidential.

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RESPONSE TO INFORMATION REQUEST

TO: NSPI

FROM: CME

Question IR-46: **Provide a total for all insurance costs for the years 2005, 2006 and estimates for 2007.**

Response IR-46:

2005 $3,738,000
2006C $3,630,000
2006F $3,861,000
2007 $3,861,000

Insurance costs include insurance premiums and other small miscellaneous insurance costs.