ORIGINAL

Exhibit- N-34

2006 NSUARB File 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

- and -

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: **John Antonuk, Donald T. Spangenberg, and John B. Adger, Jr.**
The Liberty Consulting Group

FROM: **Nova Scotia Power Inc.**

IR-1 **Question:**
Reference page 35
a) What is Liberty's expectation of the manpower and system costs that NSPI would have to incur to develop the ability to sell its excess gas. Please detail your estimate.

b) What is Liberty's assumption about the nature of gas contracts that NSPI will be able to procure to replace the existing contract, including volumes available, volume flexibility for NSPI and take or pay obligations. Please provide the evidentiary basis for any such assumptions.

c) To the extent that Liberty and others may hold concerns about past transactions involving gas sales to affiliates, please advise how removing an independent party like Brant Energy from the process would serve to ameliorate, rather than exacerbate, such concerns.

d) Please identify additional risks or exposures NSPI would take on, should it sell gas as suggested by Liberty.

Response:

a) Liberty expects that the incremental manpower and system costs that NSPI would have to incur to develop the ability to sell its excess gas would be minimal. In the Evidence that we presented to the Board last year, we stated that, "NSPI might require some different skills in its Energy, Fuels and Risk Management Department in order to conduct its own off-system sales program; however, any requirement for additional staff would be small." (Evidence filed by John

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FROM: **Nova Scotia Power Inc.**

IR-1 (Continued)

Antonuk, Donald T. Spangenberg, Jr., and John B. Adger, Jr. on behalf of the Utility and Review Board Staff, October 17, 2005, at p. 72.)

In our Evidence in this year's proceeding (at pp. 30-31), we noted that the Company had engaged a consultant to assist it in structuring offerings for the gas that could enhance the value of the gas. We also noted (at p. 34) that the consultant's process recommendations appeared to us to be "... similar to those that we view as important;..." . In Liberty IR-96, we asked the Company whether it would require additional resources to conduct the gas sales function as prescribed by the consultant. The Company's response was that it would not.

b) None of the underlying conditions and variables cited in the question are different from those faced by NSPI since contract natural gas deliveries began. Therefore, the options include those that existed before the inception of annual solicitations, which are as described in our evidence in this and prior proceedings. The options also include those identified in the ICF work for NSPI.

c) In our Evidence last year (at pp. 11-12), we recommended that NSPI, "immediately bid on a fully competitive and arm's-length basis its sale of excess natural gas ... and arrange for and coordinate that bidding and the cancellation of the existing agreement with EES with all reasonable dispatch." We did not, however, recommend the use of a third party as part of the process. We note that ICFI also "... question[s] the need for a third party to manage the procurement process. (ICFI Report at p. 25) NSPI should communicate clearly to the marketplace that it is the real party in interest and that it clearly seeks to maximize utility interests in the sale. The Brant participation, which was not independent in

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IR-1 (Continued)

a material way, did not serve that interest. Insertion of a third party into a process that is fundamentally designed to award the gas to the affiliate does not serve utility interests. (See Liberty's discussion of the 2006/07 competitions that is attached to our response to IR-2.)

d) None.

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FROM: **Nova Scotia Power Inc.**

IR-2 Question:

Reference page 34

Liberty suggests, that the competition leading to the sale of excess gas under a one-year contract was flawed.

a) Please advise, in the circumstances of the markets faced, as to the basis(es) for Liberty's suggestion.

b) With respect to each basis raised in response to a), please detail the option(s) that could practically and realistically have been adopted using foresight, not hindsight. Please indicate what caused Liberty to withhold these suggestions in NSPI's last rate proceeding.

c) Please advise if Liberty is suggesting that in assessing courses of action in hindsight, Liberty would suggest that the test be anything other than the selection of a reasonable course of action from a spectrum of potential courses of action?

Response:

a) Liberty's concerns about the 2006/07 competition are detailed in the attached document, Confidential Liberty IR-2, Attachment 1.

b) The options included, but were not necessarily limited to, a resumption by NSPI of its prior means for selling gas and an arm's-length, robust solicitation process, neither of which has Liberty withheld. The competition which is subject

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FROM: **Nova Scotia Power Inc.**

IR-2 (Continued)

of the attached Discussion Summary took place between the time of our participation in last year's rate case and the time that we were asked review the results of that competition, which was well after when it occurred. The Discussion Summary presents (at pp. 7-9) the kind of process that we would have suggested, had we been asked. (We note that our recommended process seems similar to that presented in the ICFI Report, at p. 25, but we think it should start earlier.)

c) No. Liberty's concern is whether the course of action selected by NSPI was reasonable. Prior to taking an action, the range of reasonable and realistic alternatives must be identified, the relative merits of each must be candidly and analytically examined, the one selected must represent an appropriate choice based on sound objectives and values, and the option must be designed and executed with care, timeliness, diligence, and objectivity.

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FROM: **Nova Scotia Power Inc.**

IR-3 Question:

Please confirm that a fuel adjustment mechanism could eliminate the risk of over- or under- recovery of prudently incurred fuel costs.

Response:

First, the ability of such a method to "eliminate" such risk depends on its structure. Different methods have different levels of influence on that risk, but it is generally true that the predominant goal of such methods is to mitigate that risk.

Second, in our experience, acceptance by interested parties and regulatory authorities of a fuel adjustment method depends upon the predictable, timely, and open disclosure of information by the utility of costs, including projected ones as required by the mechanism's design. A fuel adjustment mechanism would not be appropriate for a utility that does not demonstrate a willingness to meet reasonable disclosure requirements.

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FROM: **Nova Scotia Power Inc.**

IR-4 Question:

Please confirm that NSPI's methodology for developing test year prices for HFO and natural gas is the same methodology employed in the last two NSPI rate applications.

Response:

The methods were generally similar. Liberty's concern, as stated in our Evidence in this proceeding (see p. 24) is that the Company selected very nearly the highest HFO and natural gas prices observed during 2006 for use in preparing its estimated fuel costs. Liberty has not otherwise performed a detailed comparison of NSPI's methods from application to application.

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FROM: **Nova Scotia Power Inc.**

IR-5. Question:

a) Please list all fuel procurement reviews, assessments or audits conducted by Liberty on behalf of utility commissions, consumer advocates or other parties, conducted in the last 36 months.

b) Please provide costs as initially anticipated or budgeted and the final costs, for each of these audits.

c) Please provide either the publicly available versions of these audits or the URL from which they can be accessed.

Response:

Please see the following. The available reports are provided separately on a CD, and intervenors who require a copy should contact the clerk of the Board.

2006:

Nova Scotia UARB: Review, evaluation, and ratemaking adjustments of Nova Scotia's 2007 fuel and energy costs based on an examination of fuel and energy procurement and management, and a review of the reasonableness of major fuel procurement transactions.
Budgeted Costs: $162,232
Final Costs: Project is Ongoing

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FROM: **Nova Scotia Power Inc.**

IR-5 (Continued)

Arizona Public Service Company, Fuel and Purchased Power Audit, for the Arizona Corporation Commission
Budgeted Costs: $234,640
Final Costs: $234,640

Arizona Public Service Company 2006 Rate Case, for the Arizona Corporation Commission
Budgeted Costs: $58,515
Final Costs: $58,515

Public Service Company of New Hampshire, for the New Hampshire Public Service Commission
Budgeted Costs: This solid fuel project falls under an engineering contract, which has a maximum value of $205,000. Liberty can be asked to perform several audits under this contract.
Final Costs: Project is ongoing.

Dominion East Ohio Gas Company, for the Public Utilities Commission of Ohio
Budgeted Costs: $ 73,000
Final Costs: $ 72,999.92

Focused Audit of Affiliate Transactions and Management Audit of New Jersey Natural Gas Company, for the New Jersey Board of Public Utilities
Budgeted Costs: $789,540
Final Costs: Project is Ongoing

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IR-5 (Continued)

Focused Management Audit of Peoples Gas and North Shore Gas Companies, for the Illinois Commerce Commission
Budgeted Costs: $812,638
Final Costs: Project is Ongoing

2005:

Nova Scotia UARB: Review, evaluation, and ratemaking adjustments of Nova Scotia's 2006 fuel and energy costs based on an examination of fuel and energy procurement and management, and a review of the reasonableness of major fuel procurement transactions.
Budgeted Costs: $152,632
Final Costs: $183,691.41

Review of Gas Supply Planning and Asset Management Agreements of EnergyNorth Natural Gas, Inc., for the New Hampshire Public Utilities Commission
Budgeted Costs: Amended to $154,602
Final Costs: $154,602

Cincinnati Gas & Electric, for the Public Utilities Commission of Ohio
Budgeted Costs: $67,900
Final Costs: $67,900

Virginia Natural Gas, Evaluation of the Asset Management Agreement between VNG and Sequent Energy Management, on behalf of the Virginia Corporation Commission

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IR-5 (Continued)

Budgeted Costs: $240,000
Final Costs: $240,000
Note: Report is Confidential

Focused Audit of Affiliate Transactions and Management Audit of South Jersey Gas Company, for the New Jersey Board of Public Utilities
Budgeted Costs: $956,772
Final Costs: $956,772

Focused Audit of NUI Corporation and Its Affiliates, for the New Jersey Board of Public Utilities
Budgeted Costs: $1,629,803.
Final Costs: $1,629,803

2004:

Nova Scotia UARB: Review, evaluation, and ratemaking adjustments of Nova Scotia's 2005 fuel and energy costs based on an examination of fuel and energy procurement and management, and a review of the reasonableness of major fuel procurement transactions.
Budgeted Costs: $174,597 CDN
Final Costs: $178,702.20 CDN

Yankee Gas, Purchased Gas Adjustment Audit, Connecticut Department of Public Utility Control
Budgeted Costs: Liberty was hired as an extension of Staff at an hourly rate plus expenses.
Final Costs: $31,220

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FROM: **Nova Scotia Power Inc.**

IR-6 Question:

Reference page 8 second paragraph "Establishing base rates using mid-2006 estimates of market conditions is not appropriate, given volatility in general and significant market movements since that time in particular"

What would Liberty's position be if prices of various commodities had increased from mid-2006 to the time of filing and the revenue requirement was understated?

Response:

Changes in commodity prices represent one, but not the only, important variable. For example, changes in the use of gas and oil, which can happen even without a rise in the prices of both fuels, or with a differential rise, are also significant. Liberty's view, regardless of the direction of price movements or the likely impacts on revenue requirements, would be to seek the use of more recent data in circumstances where there is a sufficient probability of materially different costs to justify the effort of revising cost estimates.

Liberty's position on this issue has always been, and continues to be, that using fuel-price forecasts that are developed as close as possible in time to the effective date of rates that will be based on them is the proper approach to rate-setting in a time of fuel-price volatility, irrespective of whether prices are trending up or down at the time. Liberty's reason for taking this position has always been, and continues to be, that minimizing the time between fuel-price selection and rate-setting is the best way to limit over- or under-collection of fuel costs. Our primary objection to NSPI's fuel-price forecasts is that they appear to have been selected at the highest levels in 2006.