ORIGINAL

Exhibit - N-37

2006 NSUARB-P-886

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and –

IN THE MATTER OF AN APPLICATION BY NSPI FOR APPROVAL OF CERTAIN REVISIONS TO ITS RATES, CHARGES AND REGULATIONS

INFORMATION REQUESTS

To: **John Stutz**

From: **Nova Scotia Power Incorporated**

Responses Due: **January 12, 2007**

IR-1 Reference page 3, line 16

Dr Stutz states that NSPI's estimates of test year fuel expenses have "generally been over-stated".

Provide the source or derivation of each "Company Estimate" and each "Actual/Forecast Value" listed in Exhibit JS-4. Provide estimated effect, in dollars, of Stora not operating for much of 2006.

Response:

The Company Estimates are taken directly from the Company's evidence in past rate applications. The specific sources are as follows: for 2002 Table 3.8, for 2003 Table 7.8, for 2005 Figure 3.3, and for 2006 Table 8. The Actual/Forecast data are from the Company's response to Stutz IR-25. Dr. Stutz has not developed an estimate of the impact of the Stora closing.

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IR-2 Reference page 12, line 12

Dr Stutz identifies, as a factor which could cause NSPI's fuel cost forecast to be too high, the fact that NSPI included in its "low case" forecast an assumption that a large industrial customer (assumed by Dr Stutz to be Stora Enso) was closed from 2007 onward.

a) Is it Dr Stutz's Evidence that it is probable that Stora Enso or another large customer will not operate in 2007 and that NSPI's forecast of electric sales and fuel expenses is overstated for this reason?

b) Please explain how this factor was relied on by Dr Stutz in reaching the recommendations which he makes in this Evidence.

Response:

a) It is Dr. Stutz's Evidence that, as NSPI's low-case forecast suggests, there is a reasonable possibility of a major paper mill closure in 2007. NSPI set the reduction due to the closure at 1,700 GWH, indicating that the mill in question is Stora.

b) The purpose of the fuel-related portion of Dr. Stutz's Initial Evidence is to provide background for the Evidence filed by Liberty, and to support his recommendations. While it is not the primary basis for the recommendation, the fact that fuel-related costs could be [redacted] million less than NSPI anticipates does support Dr. Stutz's recommendation that NSPI's requested deferral of first-quarter fuel costs be rejected.

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IR-3 Reference page 7, lines 17-18

When stating. "Most of this increase is due to higher rates, not sales growth", is Dr. Stutz suggesting that rates have increased because of something other than increasing costs of service? If so, what does Dr. Stutz suggest was the cause of the increasing rates since 2004? If not, is Dr. Stutz suggesting these increasing costs are not real?

Response:

Dr. Stutz is simply pointing out that the increases in NSPI's required revenues between 2005 and 2007 are due primarily to increases in "average rates" (i.e., revenue per MWH), and not to increases in sales. The increases in average rates are driven by anticipated increases in average costs. At least for 2006, the anticipated increase was "not real." Comparison of the 2005 and 2006 C data shows that NSPI's average Cost of Operations per MWH was expected to increase. In fact, as comparison of 2005 and 2006 F data shows, it remained roughly constant.

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IR-4 Reference page 8, lines 4-22

Is Dr. Stutz intending by this section to provide expert evidence on capital markets or how the financial community will receive and react to the Board's decision in this Application? If so, please indicate the basis and provide evidence of his expertise in this area.

Response:

No. The evidence simply describes the message that the Board's actions will send if Dr. Stutz's recommendation concerning the depreciation increase is accepted.

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INFORMATION REQUESTS

To: **John Stutz**

From: **Nova Scotia Power Incorporated**

Responses Due: **January 12, 2007**

IR-5

a) Is it Dr. Stutz's evidence that NSPI's average fuel-related costs in $ per MWh are a random variable which can be modeled and predicted based on statistical analysis of historical values?

b) If the answer to a) is yes, which probability distribution does Dr. Stutz believe these values follow? (e.g. a normal distribution, uniform distribution, etc.)

c) If answer to a) is yes, how did Dr. Stutz reach this conclusion? Please provide all supporting data, analysis, documentation and references.

Response:

a) Yes, one can use statistical methods to predict future values for any variable for which one has historical data.

b) The statistical methods used by Dr. Stutz are non-parametric. They do not rely on the assumption of a particular probability distribution.

c) The statistical result relied upon is referred to as Chebyshev's theorem. It is stated and proved in standard introductory texts on statistics, such as *Mathematical Statistics With Applications*, 7th Ed., Prentice Hall, 2004. Application of this result indicates that, for symmetrically distributed data, the likelihood that a data point chosen at random will be less than the mean plus three standard deviations is roughly 94 percent.

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INFORMATION REQUESTS

To: **John Stutz**

From: **Nova Scotia Power Incorporated**

Responses Due: **January 12, 2007**

IR-6 Reference page 10, lines 1-10

a) Please identify any jurisdiction and the specific decision, where a regulator has adopted the approach suggested by Dr. Stutz – that the utility's costs and revenue requirement should be measured by statistical standard deviations from the historical mean.

b) Please provide a complete copy of all evidence filed by Dr. Stutz in a regulatory proceeding in any jurisdiction that proposes such a standard of assessment of a utility's fuel costs, together with a copy of the decision of the regulator in that proceeding.

c) Please identify all jurisdictions of which you are aware that set future test year fuel costs using historical averages and standard deviations, providing supporting orders and decisions. Is Dr. Stutz stating his statistical approach should be used rather than forward market strips or futures prices?

d) Please identify any fuel procurements negotiated in North America using Dr. Stutz's statistical approach.

Response:

a) In its decision dated October 23, 2002, the Board relied upon Dr. Stutz's approach. In accepting Dr. Stutz's recommendation for a 10 percent reduction in imported coal costs, the Board noted that the reduction would move the test year price closer to the historic mean. In Exhibit JS-5 from Dr. Stutz's Evidence in 2002, which the decision cites, the distance to the mean was measured in standard deviations.

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b) Dr. Stutz's Evidence from 2002 and the Board's decision are easily available to NSPI.

c) Dr. Stutz has no means to survey decisions elsewhere, to see if statistical methods such as his have been used or accepted. He is not aware of any reliance on these methods beyond that discussed in a) above.

d) Dr. Stutz has no means to survey the methods used in fuel procurements. He is not aware of any procurements negotiated using his approach.

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To: **John Stutz**

From: **Nova Scotia Power Incorporated**

Responses Due: **January 12, 2007**

IR-7 Reference page 10, line 5

Dr. Stutz states "One expects to find most values within two, or at most three, standard deviations from the mean."

a) Is it Dr. Stutz's expert opinion that energy prices follow this rule? If so, provide the basis for this expert opinion.

b) Please provide a table similar to Exhibit JS-3 showing average crude oil prices. By how many standard deviations did the average crude oil price in 2006 differ from the historic mean?

Response:

a) Yes. It is based on a standard statistical result. See the response to IR-5 for more details.

b) For 1993 to 2005, the mean and standard deviation for the NYMEX crude oil prices are $26.33 and $11.66 per barrel, respectively. As of January 5, the US EIA web site did not have an annual value for 2006 posted. However, inspection of the monthly values which were posted suggested that the annual value would be about $65 per barrel, about 3.3 standard deviations above the mean. Dr. Stutz would note that a larger value—4.3 standard deviations—would have resulted if the question had been about 2005 rather than 2006.

The point of Dr. Stutz's evidence is that, based on standard statistical results, most of the points in any data distribution will be less than three standard deviations from the mean. It is this statistical regularity that he relies upon in developing his evidence.

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To: **John Stutz**

From: **Nova Scotia Power Incorporated**

Responses Due: **January 12, 2007**

IR-8 Reference page 13, lines 7-13

a) Please confirm that Dr Stutz:

   i) recommends that rates for the test year should be based on the best estimate of costs for the test year based on evidence, regardless of their relationship to historical or future (beyond the test year) costs; and

   ii) does not recommend a revenue requirement reduction on the basis that the best estimate of fuel costs in the test year is not "representative" of costs in other time periods.

b) Dr. Stutz is proposing that if NSPI's fuel costs are set above $33.86 per MWh, the Board should require NSPI to file a new general rate increase application for 2008. Given a 2007 test year in this proceeding, please identify any other possible mechanisms or options available to the Board to ensure that rates in effect in 2008 will be reflective of NSPI's costs of service in 2008.

Response:

a) Dr. Stutz recommends that rates be based on the best estimate of test year costs. He would note that, in some instances, analysis of historical data may provide the best estimate of test year, fuel-related costs.

b) Adoption of a Fuel Adjustment Mechanism (FAM) could, in principle, assure representative costs in 2008. Whether it is appropriate to adopt such a mechanism and, if so, whether one

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could be put in place by 2008, are difficult questions which Dr. Stutz has not addressed in his Initial Evidence.

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To: **John Stutz**

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IR-9 Reference page 17, lines 14-23.

At lines 14 to 23, Dr. Stutz comments that a $12.5 million increase to the ELI 2PRTP rate "does not take into account the reduction in customer cost which might be provided through the 'credits and debits' paid for load shifting", but no specific recommendation is made by Dr. Stutz.

a) What specific rate design recommendation(s), if any, is Dr. Stutz making based upon the referenced comments?

b) To the extent that any such recommendations being made by Dr. Stutz differ from the rate design proposals of NSPI, please quantify their year effects on ELI 2PRTP customers and on each other rate class, based on the Application as filed.

c) Is Dr. Stutz suggesting that the ELI 2P-RTP rate increase should be reduced from that proposed based on NSPI's 2007 costs?

d) If the costs referred to, turn out to be higher than Dr. Stutz's estimates, what is his proposal for NSPI to recover these costs?

Response:

a) The purpose of the cited comment was not to support a recommendation. It was to clarify what was and was not included in the $12.5 million increase. Dr. Stutz's recommendation concerning the ELI 2P-RTP rate—rejection of NSPI's proposed true-up—is addressed separately on page 18 of Dr. Stutz's Initial Evidence. This being said, Dr. Stutz would point out that the likelihood of some increase in the take-or-pay charge and the goal of rate stability

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taken together suggest that additional changes in the ELI 2P-RTP rate such as the proposed true-up be avoided.

b) NSPI has provided no explanation of how the true-up would be performed, nor any sample calculation of its magnitude. Absent this information, Dr. Stutz cannot estimate the impact of rejection on NSPI or SEB. He would note that, because—per Board decision—credits and debits should not factor into setting the revenue requirement for ATL customers, adjusting them would have no effect on these customers.

c) Dr. Stutz has made no recommendation concerning the increase in take-or-pay costs for ELI 2P-RTP. However, consistent with his Initial Evidence, page 16 at lines 6 to 9, it is his general position that the ELI 2P-RTP take-or-pay charges should be based on COSS results developed using the Board's approved test year costs.

d) The proposed true-up seeks special treatment of a variance which, under accepted ratemaking procedures, is the Company's responsibility. Rejection of the true-up will leave the costs (and any benefits) where they belong, with NSPI. Cost recovery of the sort suggested by this question would be inappropriate.

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IR-10 Reference page 18, lines 12-17.

Dr. Stutz indicates that a true up of costs and net credits could make the ELI 2P-RTP "unworkable" for SEB. Does Dr. Stutz acknowledge that a rate may be "unworkable" for the utility? What, if anything, in Dr. Stutz's opinion, would make the ELI 2P-RTP rate "unworkable" for the utility?

Response:

Yes, there are two general types of problems that a rate could be unworkable for the utility. Administration of the rate might create technical requirements that cannot be met, or the rate might be designed so that the Company is denied appropriate cost recovery. There is no indication of any problem of the first type for ELI 2P-RTP. As to the second type, the key word is "appropriate." If, for example, the take-or-pay charges for ELI 2P-RTP were set based on an R/C ratio of .9 rather than .95 and no offsetting adjustment were made to the ATL rates, the resulting rate would, in Dr. Stutz's view, be unworkable for the Company because appropriate cost recovery would be denied. Rejection of the true-up does not create this type of problem because the true-up seeks to implement inappropriate cost recovery. The "inappropriateness" is explained on page 18 of Dr. Stutz's Initial Evidence and in the response to IR 9 d).

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IR-11 Reference part 6, pages 19 to 20

a) In Section 11 of its Application, NSPI requests the Board include in the 2007 revenue requirement any additional investment the Board directs during the general rate increase application that arise from ongoing regulatory proceedings. In opposing this request, is Dr. Stutz suggesting that the Board may direct NSPI to make investments that cannot be recovered through rates? If so, what is the legal or regulatory basis for such an approach? How would NSPI recover these costs?

b) Please identify what specific obstacle has prevented parties in this proceeding from filing information requests, submitting evidence, cross-examining or filing briefs about the matters identified in section 11 of NSPI's Application.

Response:

a) Dr. Stutz's evidence focuses on the timing of Company requests for cost recovery. The essence of Dr. Stutz's position was summarized by the Board in the following statement, included in paragraph 85 of the decision dated October 23, 2002:

> "If the rate-making process were based on the most up-to-date numbers, as opposed to forward-looking data derived from experience over the longer term, each month could bring innumerable changes to the revenue requirement. On balance, it is the Board's view that this is not an appropriate methodology to employ for rate-making purposes."

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If the Board directs NSPI to make an investment, the resulting cost will usually be a "rate base item." Rate basing could be addressed in a subsequent general rate proceeding. However, when it used the term "investment," NSPI may have had in mind an action leading the Company to incur a between-rate-case expense. Such expenses, as well as between-rate-case benefits, generally fall to the Company. Why this is reasonable and equitable is explained in Dr. Stutz's Initial Evidence, pages 19 to 22. However, the Company can always request deferred recovery, or at least the opportunity to argue for it later. Given the regulatory principles involved and the asymmetry—NSPI will presumably ask to recover costs but not refund benefits—such requests should require exceptional justification.

b) NSPI has yet to file evidence indicating what, if any, "section 11.1 costs" it might seek to recover. It is not possible to develop detailed, specific information requests, evidence or cross-examination concerning costs that the Company has yet to quantify and support in evidence.