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: SEB**

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**Question IR-144:** **In response to UARB IR-33, NSPI had indicated that the Board approved the selected consultant and the Terms of Reference on July 21, 2006. When was Accenture contacted and re-engaged to complete the report?**

**Response IR-144:** Accenture was contacted mid-August and a draft letter of engagement was prepared on August 25, 2006 with the intent to carry out the work between September 13 and November 10. Due to scheduling challenges, the review took place between November 14, 2006 and January 7, 2007.

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**Question IR-145:** **Please advise the dates on which Accenture conducted its analysis for the preparation of the operations report.**

**Response IR-145:** Please refer to SEB IR-144.

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**Question IR-146:** **Please confirm that NSPI has not carried out any more internal studies on OM&G since the most recent one of September 2, 2004 indicated in response to CA IR-44.**

**Response IR-146:** Confirmed. Please refer to CA IR-85.

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**Question IR-147:** **In response to CA IR-44, NSPI had indicated that "it is undertaking a more detailed review of its corporate structure. The terms of reference for this study can be found in CA IR-38." Is it the understanding of (a) NSPI and (b) Accenture that the scope of the operations review ordered by the Board was limited to a review of corporate OM&G?**

**Response IR-147:** Yes. Please refer to CA IR-89.

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**Question IR-148:** **Please identify the individual consultants who prepared this report on behalf of Accenture and provide their detailed resumes.**

**Response IR-148:** Please refer to CA IR-78 and CA IR-79.

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**Question IR-149:** **Please identify any other expert reports similar in scope to the NSPI report previously conducted by the individuals identified in IR-5 for electric utilities.**

**Response IR-149:** Assessments such as that provided to NSPI are standard and customary services provided by Accenture. Please refer to CA IR-79 for resumes that outline the experience of the project team.

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**Question IR-150:** **Please list all the information, documentation, reports, studies, etc. that Accenture has access to and/or relied upon in considering best utility practices and bench marking comparisons in the area of OM&G expenditures.**

**Response IR-150:** Accenture's benchmarking databases are based on comprehensive experience across all industry groups. Specific information and sources are proprietary to Accenture.

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**Question IR-151:** **Reference, Final Report, page 3. Please confirm that the only OM&G functions included in the scope for the assessment by Accenture included: Finance and Accounting; Human Resources; Procurement and Facilities; Information Technology; Executive Management; and Legal and Regulatory affairs.**

**Response IR-151:** Confirmed for the Accenture report dated January 8, 2007. Other functions of OM&G are addressed in the Accenture report dated March 7, 2006.

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**Question IR-152:** **Reference, Final Report, page 5. In the activity/service fragmentation for Finance and Accounting, the report appears to indicate that services regarding "credit risk" are transferred from Emera & Affiliates to NSPI Corporate Services. Please elaborate on this item.**

**Response IR-152:** The Risk Management group reports to the CFO of Emera. They are responsible for risk management oversight for the entire Emera group of companies, including credit risk. The exception is individual customer credit for regulated service which is handled by NSPI through its customer service group.

All costs are allocated between affiliates based on UARB approved cost allocation methodologies.

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**Question IR-153:** **Reference, Final Report, page 6. The report purports to compare NSPI to "a utility of its size and structure" and states that NSPI is in the "typical range for small utility".**

**a) Please provide a list of all utilities considered by Accenture that fall within this category.**

**b) For each utility identified, please provide the following information:**

**i) Total Approved Revenue Requirement;**
**ii) Total OM&G Expenditures as a portion of that Revenue Requirement;**
**iii) Number of Employees;**
**iv) Total System Requirements for 2005 and 2006 in GWH;**
**v) Total Fuel Cost / MWH for 2005; and**
**vi) Total Fuel Cost / MWH currently approved in the utility's Revenue Requirement.**

**Response IR-153:** a) Please refer to CA IR-86 and SEB IR-150.

b) The information requested was not included in the scope of the engagement.

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**Question IR-154:** **Reference, Final Report, page 7. The report identifies a "typical range" for both "a small utility" and "a mid-large utility".**

**a) Please provide a list of all the "small" utilities used to identify the range provided on page 7, if different from the utilities identified in IR-10(a).**

**b) Please provide a list of all utilities considered by Accenture to be "mid-large".**

**c) For each utility identified, please provide the information requested in IR-10(b).**

**d) Please identify specifically how Accenture defines "small" and "mid-large" utilities.**

**Response IR-154:** a-b,d) Page 7 refers to relative sophistication of capabilities observed in utilities and simply observes that capabilities become more sophisticated as size and scope of a company increases. It is based on Accenture experience working for numerous utilities in North America. A small utility is typically defined as one with less than 500,000 customers. A mid-size utility would be 500,000 to 1,500,000.

c) The information requested was not included in the scope of the engagement.

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**Question IR-155:** **Reference, Final Report, pages 9 and 16. The report's findings on page 9 indicate that three applications have been identified as both technically and functionally weak. These include: work management system (WMS), wiring permits and inspection (WPI), and capital management system (CMS). Please advise as to the estimated benefit in dollars to the overall OM&G costs if these systems were currently in place in 2007.**

**Response IR-155:** The IT upgrades will result in incremental costs, primarily annual maintenance costs. Please refer to CA IR-107.

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**Question IR-156:** **Reference, Final Report, pages 10, 39, and 94. Under the heading "Comments", the report states "NSPI has been able to control its OM&G costs in recent years. Total costs for 2007 are expected to be approximately $38.1 million."**

**a) Please confirm that this reference is only to OM&G costs related to Corporate Services.**

**b) Please confirm that the 2007 forecast filed in the application of October 10 called for $35.0 million in expenditures for OM&G costs associated with these corporate support groups. In particular, please confirm that the forecasted estimate for procurement costs in the application of October 10 is $5.7 million, not the $8.7 million indicated on page 10.**

**c) On page 39, the report indicates that this forecast includes an additional estimate of $3 million in procurement costs "adjusted to include the effects of the recent re-organization." Yet page 94 of the report states that this re-organization occurred in "May 2006". Please explain why the procurement costs are adjusted in the operations report but not in the application of October 10.**

**Response IR-156:** a) Confirmed.

b) Confirmed. The additional $3 million included in this report is a transfer of costs from Power Production and Customer Operations.

c) They are not adjusted in the Rate Application as the costs were included in Power Production and Customer Operations. To keep

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**Response IR-156:** (cont'd)

the comparisons to prior year and compliance filing less complicated, the company maintained the Application consistent year over year as the reorganization occurred part way through 2006. Only transfers that were complete at the beginning of 2006 were reflected in the Rate Application (e.g. Customer Service and Customer Operations).

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**Question IR-157:** **Reference, Final Report, page 11. Please provide a listing of the "utility peers" used to create the bench mark indicated on this page. For any of the utilities not already in IRs 10 and 11, please provide the information requested in IR-10(b) for each utility.**

**Response IR-157:** Please refer to SEB IR-153 (b).

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**Question IR-158:** **Reference, Final Report, page 11. At the bottom of the page, it states that the benchmarks are "based on March 2006 bench marks, updated bench marks as part of January 2007 study, and interviews conducted as part of January 2007 study". Please provide the names of the utilities involved in the March 2006 bench marks, those involved in the bench mark updates as part of a 2007 study, and those interviewed as part of the January 2007 study.**

**Response IR-158:** The reference is to the March 2006 benchmark study Accenture performed for NSPI. That study and all sample sets, to the extent to which they could be provided based on the proprietary nature of the data, are contained in that report. The benchmarks in the March 2006 study are current. The reference to updates refers to the updating of NSPI data to end of year 2006, or most recent available, only.

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**Question IR-159:** **Reference, Final Report, pages 12-16. The Terms of Reference for the Operations Report, provided in response to CA IR-38, note in part (d) on page 5 of attachment 1 that "the consultant should bear in mind that the primary focus of the examination is to provide recommendations concerning improvements, cost savings, and operational efficiencies which can be achieved."**

**a)** **Please elaborate on Accenture's view of its purpose in conducting this operations review.**

**b)** **Please provide an estimate of the estimated cost savings and operational efficiencies identified by Accenture that could be achieved (in dollars) as a result of implementing each of the "tactical and strategic improvements" identified and discussed at pages 12 to 16 of the Report.**

**Response IR-159:** a) The arrangement letter with NSPI outlines the objective of the study. Please refer to CA IR-76.

b) Page 16 of the report includes estimates of these cost savings and operational efficiencies.

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**Question IR-160:** **Reference, Final Report, pages 27-28. There is no slide of "Key Facts" associated with the Executive Management Function. Also, it appears that there is no separate information in the Appendix specific to consideration of this function. Please advise as to whether this information was not prepared, or whether it was inadvertently omitted from the report.**

**Response IR-160:** The executive management function was examined in terms of structure and organization of NSPI and Emera. The assessment provided on page 7 summarizes conclusions.

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**Question IR-161:** **Reference, Final Report, pages 50-54, 77-78, and 101.**

**a)** **Please discuss how the characteristics of "basic", "progressive", and "advanced" capabilities are developed by Accenture for each of the functions examined.**

**b)** **Please provide the methodology in which Accenture calculated its ranges for "Industry Average Performance" for each of the functions examined.**

**c)** **Please discuss in detail how Accenture arrived at its assessment of "Current NSPI Performance" for each of the functions examined.**

**Response IR-161:** a-c) The characteristics of "basic", "progressive", and "advanced" are descriptions of the range of capabilities found in companies within the utilities industry, based on Accenture's experience working for the major utilities of North America.

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**Question IR-162:** **Reference, Final Report, pages 64-68, 88-89, 133-135. Please provide the publication dates of all the sources used to benchmark NSPI's 2006 estimates to the "utility peer set" for (a) Finance and Accounting, (b) Human Resources, and (c) Information Technology. Please provide copies of the executive summaries of these reports.**

**Response IR-162:** Please refer to SEB IR-150.

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**Question IR-163:** **Reference, Final Report, page 71. The report states that "NSPI conducts HR work for its affiliates". What percentage of overall HR work is devoted to NSPI affiliates?**

**Response IR-163:** As per Appendix B page 10 of 43 of Direct Evidence for 2007, 5.9 percent of human resource work is charged to its affiliates.

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**Question IR-164:** **Reference, Final Report, Appendix 1 and 2. The report identifies numerous NSPI weaknesses in areas of Finance and Accounting (pages 55-60), Human Resources (pages 79-85), Procurement and Facilities (pages 102-103), Legal and Regulatory Affairs (pages 109-110) and in findings on IT Governance (pages 123-129).**

**a) Has Accenture attempted to quantify the financial impact of these weaknesses on the overall operations of NSPI, either for particular items or as a whole?**

**b) If these weaknesses had been addressed by NSPI, is Accenture of the opinion that the total costs in each area would be reduced below their stated levels? If so, please provide the best estimates to date of the amount of each individual savings.**

**Response IR-164:** a-b) The financial impact has been quantified as part of the improvement opportunities shown on pages 13-16. Additional investment and other resources would be required.

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**Question IR-165:** **Please describe the study process utilized by Accenture relating to its report. This description should include but not be limited to the following items:**

**a) Documents relating to Accenture's hire in this case, including scope of service, documentation and contracts.**

**b) Dates and nature of all meetings between Accenture and Emera/NSPI.**

**c) Listing of scheduling milestones and deliverables.**

**Response IR-165:** a-c) Page 3 of the report outlines Accenture's approach to this study as does the arrangement letter referenced in response to CA IR-76. As outlined on page 3 of the report, the approach followed normal and customary assessment techniques utilizing performance benchmarks and capability assessment tools provided in the appendices to the report. Interviews and internal data were used to draw an as-is picture of NSPI. This approach is standard and customary. The key milestone was delivery of the final report. Please refer to CA IR-84.

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**Question IR-166:** **Please confirm that a performance assessment was not made for NSPI's non-fuel production operation and maintenance expense, transmission operation and maintenance expense, and distribution operation and maintenance expense. If the answer is yes, please explain why a performance assessment for these expenses was not performed.**

**Response IR-166:** Please refer to CA IR-89.

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**Question IR-167:** **The OM&G functions that were part of the assessment scope include finance and accounting, human resources, procurement and facilities, information technology, executive management, and legal and regulatory affairs.**

**a) Please provide the percentage these OM&G expenses comprise of the total OM&G expense, less fuel cost for 2006 and 2007.**

**b) Please provide the total number of employees that are related to total OM&G expense for 2006 and 2007 and the total number of employees that are included in the assessment.**

**Response IR-167:** a) Please refer to NSPI's Direct Evidence, Appendix B, Page 1. NSPI does not include fuel expense in OM&G costs.

b) The total number of FTEs covered by the January 8 report, per the areas identified in the Terms of Reference, is 188. NSPI has more than 1650 FTEs, the expense for which has been covered in the March, 2006 report (CA IR-45) and other studies (CA IR-89).

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**Question IR-168:** **Please describe the process used between Accenture and the client in development of the final report. This discussion should include but not be limited to the following:**

**a) Was the client provided a draft or drafts of the report prior to finalization?**

**b) If the answer to a. is yes, please provide all such drafts and any documented feedback by the client.**

**c) Please provide workpapers, notes, etc. related to feedback from the client on draft versions of the report.**

**Response IR-168:** The final report was drafted by Accenture. NSPI was provided one opportunity to make comment.

a) NSPI was provided one draft copy of the report on December 30th.

b) A copy of the confidential draft report is available for viewing at NSPI offices with other supporting documentation referenced in CA IR-90.

c) Please refer to SEB IR-169. Accenture did not retain any notes.

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**Question IR-169:** **Please describe how Accenture utilized and evaluated feedback from the client.**

**Response IR-169:** Accenture received minor feedback on one draft of the report. This feedback was in the form of minor text edits, identification of spelling and grammatical errors, and correction of NSPI-specific terms. No material changes were suggested to the content of the report nor were any material changes made in response to feedback from NSPI.

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**Question IR-170:** **Please identify parts of draft reports that were changed as a result of feedback from the client and explain the reason for the change.**

**Response IR-170:** Please refer to SEB IR-169.

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**Question IR-171:** **Please describe the criteria used to develop the utility peer sets for each of the examined functions.**

**Response IR-171:** Please see the March 2006 study referenced in response to CA IR-45.

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**Question IR-172:** **Please describe how Accenture determined the metrics used to evaluate each utility function. To the extent Accenture relied on industry standard practice, please provide a copy of source documents outlining such practice.**

**Response IR-172:** Metrics used are based on Accenture experience and professional judgment and reflect typical data collections practices across industries and normal, expected constraints of data availability from companies.

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**Question IR-173:** **In each function evaluation, please describe what other metrics were considered as potentially relevant measures by Accenture and subsequently deleted prior to final report. Please explain why such metrics were deleted.**

**Response IR-173:** All metrics considered are provided in the appendices to the report and/or in the March 2006 study.

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**Question IR-174:** **Please provide a copy of all workpapers used in the context of the study. Such workpapers should include but not be limited to source documents, spreadsheets (with formulas visible and intact), memoranda, notes, etc.**

**Response IR-174:** Accenture does not keep working papers. Internal documents and materials are proprietary to Accenture.

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**Question IR-175:**

**a) Regarding the capabilities assessments, please describe in detail how these assessments were made. This description should include but not be limited to:**

**ii) Who made the assessment.**

**iii) The weight given to NSPI executives' opinion.**

**iii) How each assessment criterion can be linked directly to the metrics shown.**

**iv) How Accenture used judgment and discretion in deriving the assessments.**

**b) Please explain the rationale for comparing NSPI, a utility, to benchmarks drawn from industries unrelated to utilities. Please provide details and support documentation on the claimed validity.**

**Response IR-175:**

a) Capabilities assessments were made solely by Accenture based on data analyzed, interviews conducted, Accenture's benchmarks and leading practice databases, and collective professional judgment of the project team and subject matter advisors.

b) It is customary during a performance assessment to compare certain benchmarks for companies both within the utility industry and across industries to understand the relative performance of the company.

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**Question IR-176:** **On page 6 of the report, it states that for the longer-term strategic opportunities, proactive investments with paybacks anticipated to be three to four years exist. Please identify the investment required and the economic analyses that support the paybacks.**

**Response IR-176:** Please refer to page 16 of the report. No economic analysis has been completed.

**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: SEB**

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**Question IR-177:** **On page 6, please identify the tactical opportunities that exist to incrementally improve performance.**

**Response IR-177:** Please refer to page 16 of the report.

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**Question IR-178:** **Please provide the supporting data that was utilized to develop the bar graph shown on page 8.**

**Response IR-178:** Please refer to SEB IR-150.

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**Question IR-179:** **On page 11, please explain why the financial and accounting costs were measured as a percentage of revenue. Do fuel costs that are included in the revenues affect the metric and conclusions? Please explain.**

**Response IR-179:** Accenture considers finance and administration (F&A) expenses as a percentage of revenue an appropriate measure and F&A transaction costs are influenced by the size of the organization. Including fuel costs in revenues does not affect the metric as fuel costs are a normal cost of production for a utility and included in revenue.

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**Question IR-180:** **On page 11, please provide all of the supporting data and workpapers that were used to develop the five bar graphs.**

**Response IR-180:** Details for the benchmarks utilized to form the composite benchmark summary are contained in the appendices. Please refer to SEB IR-150.

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**Question IR-181:** **For the financial and accounting summary assessment shown on page 19, please provide a description of how the overall cost metrics were weighted to develop the bar graph. Provide all supporting data utilized to develop the bar graph. The information should be sufficient to support NSPI's placement in the first quartile.**

**Response IR-181:** The information used to form the summary assessment is contained in the Report Appendices.

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**Question IR-182:** **For the human resource summary assessment shown on page 21, please provide a description of how the overall cost metrics were weighted to develop the bar graph. Provide all supporting data utilized to develop the bar graph. The information should be sufficient to support NSPI's placement between the second and third quartile.**

**Response IR-182:** Please refer to SEB IR-181.

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**Question IR-183:** **For the procurement and facility summary assessment shown on page 23, please provide a description of how the overall cost metrics were weighted to develop the bar graph. Provide all supporting data utilized to develop the bar graph. The information should be sufficient to support NSPI's placement in the second quartile.**

**Response IR-183:** Please refer to SEB IR-181.

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**FROM: SEB**

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**Question IR-184:** **For the information technology summary assessment shown on page 25, please provide a description of how the overall cost metrics were weighted to develop the bar graph. Provide all supporting data utilized to develop the bar graph. The information should be sufficient to support NSPI's placement between the first and second quartile.**

**Response IR-184:** Please refer to SEB IR-181.

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**FROM: SEB**

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**Question IR-185:** **For the legal and regulatory affairs summary assessment shown on page 27, please provide a description of how the overall cost metrics were weighted to develop the bar graph. Provide all supporting data utilized to develop the bar graph. The information should be sufficient to support NSPI's placement in the second quartile.**

**Response IR-185:** Please refer to SEB IR-181.

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**Question IR-186:** **On the top of page 35, it states the following: "With the recent restructuring, there is a clear delineation of the responsibility for specific functional activities across NSPI, EMERA and affiliated companies." Does this clear delineation of responsibility result in redundant services for each of the entities listed? Please explain.**

**Response IR-186:** No. In areas where there are opportunities for cost efficiencies (e.g. accounts payable) the services are consolidated and costs are allocated in accordance with the UARB approved cost allocation methodology.

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**Question IR-187:** **Please provide the basis for selecting the metrics for comparing finance and accounting costs with peer groups as shown on pages 64 and 65.**

**Response IR-187:** The metrics selected were the same metrics used in the March 2006 benchmarking study provided to the UARB, but with NSPI data updated to reflect 2006 values.

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**Question IR-188:** **For the human resources benchmarks shown on pages 88 through 91, please provide the data utilized to develop the various benchmarks and NSPI's quartile position.**

**Response IR-188:** Data for establishing NSPI's position was provided by NSPI to reflect 2006 or current values as applicable. The benchmark data and source are proprietary to Accenture.

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**Question IR-189:** **On page 133 IT operating expenses are shown as a percent of revenue. Please provide an explanation as to why it is appropriate to compare IT expenses as a percent of revenue when assessing NSPI's performance versus a peer group of utilities.**

**Response IR-189:** The metric is a common way to benchmark relative IT costs and efficiency across companies, normalizing the effect of company size (revenue) to make comparisons.

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**Question IR-190:** **Please provide all data that was utilized to develop the functional versus technical quality graph shown on page 143.**

**Response IR-190:** Surveys were distributed and collected in December 2006. A total of 14 technical and functional survey responses were received.

The survey questions and scoring are proprietary to Accenture.

The assessment approach evaluates many aspects of an application including:

**Technical Characteristics**

- Integration Ability
- Reusability
- Hardware / Operating System Dependency / Supportability
- Scalability
- Security
- Compliance to Standards / Architectural Integrity
- Adequacy of checks and controls.
- Degree of Modification of Package
- Maintainability / Modifiability /
- Complexity / Build-ability / Subset-ability / Traceability
- Technical Documentation
- Skill Base
- Package Viability
- Testing
- Performance - Online
- Performance - Batch
- Reliability
- Problem Resolution

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**Response IR-190:** (Cont'd)

- Operability / Manageability
- Internal Support
- Quality of Vendor Support (if applicable)
- Vendor Viability
- Support of Current Business
- Support for Future Business

**Functional Characteristics**

- System Flexibility / Scalability
- Support for Future Requirements
- Current System Capabilities
- Usability
- Level of Integration / Ability to be Integrated
- Information Adequacy
- Availability
- Training
- Security
- Help Facilities / Business Documentation

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**Question IR-191:** **Please provide all data utilized to develop the bar charts shown on pages 144 and 145. In addition, please describe how the vertical axes for both of these bar charts were developed.**

**Response IR-191:** Please refer to SEB IR-190. The separate charts on pages 144 and 145 were combined on one graph for the chart on page 143.