NOVA SCOTIA POWER
An Emera Company

October 31, 2006

RECEIVED
NOV 0 1 2006
Nova Scotia
Utility and Review Board

Nancy McNeil
Regulatory Affairs Officer
Nova Scotia Utility and Review Board
1601 Lower Water Street, 3rd Floor
P.O. Box 1692, Unit "M"
Halifax, NS
B3J 3S3

Re: NSPI Rate Case 2007 – P.886

Dear Ms. McNeil:

By Notice dated October 16, the Board has requested input from Nova Scotia Power Inc. and Intervenors on the proposed Rate Case Issues List by October 31, 2006. Please accept these comments on behalf of NSPI.

NSPI thanks the Board for establishing a schedule for this application that sets a hearing beginning in January, which will allow for a decision that can be implemented by April 1, 2007. NSPI welcomes review by the Board of those matters that will affect the 2007 test year. The following comments are provided to assist the Board as it undertakes this proceeding within the schedule that has been established.

General

NSPI supports the schedule put forth by the Board, and notes that it can be achieved through a focus on the material issues which have caused this application to be filed and which affect the 2007 test year.

A focused Issues List will assist all participants in achieving an efficient hearing. NSPI suggests the proposed issues list can be narrowed by ensuring that there is no duplication of reviews that were recently directed in the Board's March 10, 2006 decision, or work that is planned, or that has been recently undertaken.

NSPI notes that many aspects of the Company's operations have recently been or soon will be reviewed by the Board. NSPI suggests that items that have been or are already being addressed do not warrant additional review during this rate application where that scrutiny duplicates existing or previous efforts. By way of example, but not exclusively:

- NSPI has been working closely with the Liberty Consulting Group ("Liberty") to respond to the Board's fuel related directives from recent rate cases;
- Liberty is currently undertaking the affiliate audit as directed by the Board in the recent rate case;
- As directed by the Board and in accordance with Board-approved terms of reference, NSPI has retained the consultant Accenture to undertake a review of NSPI OM&G expenditures and operations;
- Demand Side Management plans and expenditures have been reviewed by consulting firm Summit Blue, including significant consultation with stakeholders, and will be further addressed as part of the Integrated Resource Planning process;
- Vegetation Management Plans have been reviewed by Liberty and received support from the consultant;
- NSPI load forecasting is to be reviewed by Dr. Stutz in accordance with a Board directive arising from recent rate cases; and
- ROE, capital structure and return on rate base were fully reviewed and decided effective May 19, 2005, and re-confirmed in the most recent decision on March 10, 2006.

The Preliminary Issues List includes (in items 1 and 4) fuel and OM&G costs back to 2000. NSPI notes that these items have received careful review on many occasions since 2000, including in three previous general rate applications. NSPI has been responsive to all Board directives in these areas, some of which are currently underway. In the most recent rate case, the Board noted in its Decision (March 12, 2006) in respect of fuel:

> "...The Board is pleased with the dedication shown by NSPI towards improving its procedures in this very important area of NSPI's operations. The Board also notes that there appears to be general acceptance by the intervenors that NSPI has made significant improvements in the fuel procurement area." (at paragraph 44)
>
> "...the Board wishes to make it clear that the impact of NSPI's past imprudence for the failings discussed in this decision is now spent and will not extend beyond the 2006 test year..." (at paragraph 96)

These Board comments, the ongoing OM&G review, and the examination of both fuel and OM&G in recent rate cases all suggest that a separate review back to 2000 is not required. In the case of OM&G, NSPI suggests that a separate review is not necessary since an increase is not requested from the levels recently approved on March 10, 2006 (excepting the discrete matter of pension costs). NSPI anticipates the information from the current review being available to the Board in advance of the rate hearings. Meanwhile, the Company has committed to hold OM&G expenses constant in the 2007 test year. NSPI suggests the Board clarify in the final Issues List, should the Board have

further questions, which specific aspects of fuel and OM&G are subject to review and that the time frame for review be focused on the 2007 test year.

The Company welcomes an examination of those matters that will affect the 2007 test year and that have not been recently examined in rate proceedings or other Board processes and directives. If all matters of NSPI operations require both review in other proceedings or processes, and subsequent review in a rate application, the objective of a focused and manageable application will not be achieved. Such an approach establishes regulatory processes that are less efficient and less effective.

Specific Proposed Issues

NSPI offers the following comments in respect of the specific issues contained in the proposed list:

1. **Fuel Related Issues** – Each of the proposed items in this topic arise in the NSPI Application Evidence. NSPI notes that affiliate transactions are currently the subject of a review by Liberty that will be completed prior to the rate case hearing;
2. **Compliance with all Directives** – NSPI supports this item being on the Issues List;
3. **Deferred Items** – NSPI suggests it would be helpful for the Board to confirm that the aspects of these items that have been previously decided by the Board (specifically, the amount, amortization and start date of the S21 tax recovery, the amount of the Q1 tax deferral, and the depreciation schedule) will not now be reconsidered. NSPI requests the Board to identify the specific elements of these items that are to be considered in this proceeding;
4. **OM&G costs** – NSPI suggests that, in light of there being no increase requested to OM&G costs from those recently approved (except pension costs, which are addressed in the next issue), outstanding concerns will be addressed by the ongoing OM&G study. NSPI anticipates this study will be completed and available to the Board during this application process. NSPI requests the Board clarify this aspect of the Issues List, which will help to narrow the scope of the proceeding and reduce the length of the hearing;
5. **Financial Issues** - NSPI supports this item being on the Issues List in regard to pension costs and credit ratings. However, NSPI is seeking no change to ROE or Capital Structure recently approved by the Board and therefore NSPI suggests that removing these specific items from the Issues List would assist in narrowing the scope of the proceeding and reducing the length of the hearing;
6. **Existing Regulations and Proposed Changes** - NSPI supports this item being on the Issues List;
7. **Above the Line Rates** - NSPI supports this item being on the Issues List;
8. **Below the Line Rates** - NSPI supports this item being on the Issues List;

9. **Energy Sales, etc** - NSPI supports this item being on the Issues List;
10. **Expenditures relating to Demand Side Management, etc** – NSPI notes that the DSM and IRP are the subject of another regulatory process and do not require examination during this rate application, unless parties wish NSPI to make additional expenditures in these areas, in which case the appropriate amounts will need to be included in the new rates;
11. **Costs associated with pending UARB reviews** - NSPI supports this item being on the Issues List;
12. **The Compliance Filing Process** - NSPI supports this item being on the Issues List;
13. **Standard Filing requirements and other changes** - NSPI supports this item being on the Issues List;
14. **Review of results for 2006** – NSPI welcomes a review 2006 results during this rate application, and has filed confidential evidence on this topic. NSPI suggests it will be helpful for the Board to confirm that the review of 2006 results is solely for the purpose of establishing the foundation of the 2007 test year costs.

Finally, in respect of the latter item (2006 financial results), NSPI notes that at the time of the hearing in late January NSPI will not have publicly reported its 2006 financial results. At that time, the Company will be in a position only to discuss Q3 results. The company will be in a securities "black-out" period in respect of 2006 final results. Since SEPH resumed operation for the fourth quarter of 2006, the effect of the SEPH shutdown can be examined using Q3 results.

In closing, NSPI appreciates the Board's effort to establish a focused hearing process and suggests that a narrow issues list is an important element of the Board's management of the regulatory process.

All of which is respectfully submitted,

Rene Gallant
Regulatory Counsel

Cc: Ralph Tedesco
Bruce Outhouse, Q.C.