



Nova Scotia Utility and Review Board

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May 18, 2007

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Nova Scotia Power Inc.
c/o Mr. Rene Gallant
Regulatory Counsel
14th Floor, Barrington Tower
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Halifax, NS B3J 2W5

Dear Mr Gallant:

Nova Scotia Power Inc. - Operations Review - P-886.2

This letter is further to the Board's decision of February 5, 2007, in the matter of NSPI's rate application which was filed on October 10, 2006, and is with respect to the above-noted OM&G review. The decision stated that:

[49] In its decision dated March 10, 2006, the Board ordered a review of NSPI's operations:

The Board directs that an operations review be carried out on NSPI's operations. The review shall encompass a detailed examination of NSPI's organizational structure, its level of OM&G expenditures, and any other pertinent areas which may come to light, with a view to determining whether cost savings and operational efficiencies can be achieved. NSPI is directed to prepare the terms of reference for the operations review and submit them to the Board for approval by May 31, 2006. The terms of reference shall also set out the procedures for identifying and selecting the firm or person who will perform the operations review.

(Schedule "C", Board Order dated April 12, 2006)

[50] In response to this direction, NSPI filed a report prepared by Accenture Inc. ("Accenture") on January 8, 2007, (the "Accenture Report" or the "Report"). The CA filed evidence dated January 22, 2007, prepared by Blue Ridge Consulting Services Inc., ("Blue Ridge") analyzing the Accenture Report. In a pre-hearing conference of December 7, 2006, the Board had ordered that the Accenture Report be filed in advance of the hearing so it would be available to the parties. In doing so the Board truncated the normal process

whereby the Report would be filed with the Board and the Board would determine the future process with respect to consideration of the Report.

The Board went on to find that:

[54] The Board has determined that the process concerning the operations review will continue following this decision and that interested stakeholders will have an opportunity to participate - the CA already has. The Board is interested in soliciting views of parties to the rate case proceeding with respect to the appropriate course of action. Accordingly, the Board will provide an opportunity for input concerning the desirability of a further review of NSPI's operations as suggested by the CA or whether parties are satisfied that Accenture has met the Board's terms of reference.

(Board Decision, February 5, 2007, P-886, pp. 24-25)

The decision also set out time lines for parties to file submissions regarding this issue and filings were received from NSPI, Avon Valley, *et al*, SEB, as well as Information Request responses from the Consumer Advocate. The Board has carefully reviewed the Accenture Report (the "Report") and the submissions of the parties with respect to whether the Report adequately fulfills the objectives of the operations review established by the Board in its 2006 Decision and, subsequently, in the Terms of Reference which were revised and approved by the Board in a letter dated July 21, 2006.

In the Board's view, it is quite clear from the language used in the Board's 2006 decision, as set out above, that NSPI was directed to conduct a comprehensive review of its OM&G expenditures, estimated to be \$197.5 million for the 2006 test year in NSPI's most recent rate application. Similarly, the Terms of Reference approved by the Board clearly states the Board's intended review requirements:

3 Scope

- c) The consultant will be required to perform a detailed examination of NSPI's organizational and operational structure, and of NSPI's current level of OM&G expenditures (including those expenditures on contracted out third party goods and services) with a view to determining whether cost savings and operational efficiencies can be achieved. In addition, the consultant must be alert to other pertinent areas in which additional cost savings and operational efficiencies can be achieved.
- d) Based on the consultant's examination, as set out above, and based on the consultant's years of demonstrated experience and expert judgement, the consultant will provide specific recommendations concerning those areas of organizational and operational structure, including the OM&G expenditures, where improvements, cost savings and operational efficiencies can be achieved.

While, the consultant should also consider best utility practices and bench marking comparisons when determining the specific recommendations to be made, 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.

However, it is also clear to the Board following its review of the Report that the scope of Accenture's work was much narrower than that described above. In fact, it was limited to the Corporate Services component of NSPI's overall OM&G functions, which represents approximately \$39 million of NSPI's OM&G costs of \$197.5 million. While the Board has determined that the report may be acceptable as an adequate review of NSPI's Corporate Services unit (subject to the qualifications set out below), it does not comply with the Board's directive for a comprehensive, overall OM&G review.

As a result, the Board intends to engage an independent expert to carry out a review on the areas of NSPI's OM&G costs which remain outstanding.

The Board is cognizant of the additional time and costs such a review will incur. This is of particular concern since the cost of this review is, in the Board's view, appropriately included in costs attributable to ratepayers. Therefore mitigation of these costs, to the extent possible, is an important objective in this process. To accomplish this, the Board will make all reasonable efforts to avoid redundancy and to utilize existing reports and information, where appropriate, which relate to NSPI's OM&G. As you are aware, a number of matters which fall under OM&G costs have been the subject of review and audit by the Board over the past few years and, as a result, may not require further examination. These include directives arising out of the Board's 2005 power outage review, inspections of infrastructure as a result of customer complaints, certain fuel related issues, etc. The Board will issue further correspondence setting out those matters which it believes can be used to reduce the amount of work necessary to satisfactorily complete the OM&G review.

As noted above, the Board is prepared to accept the Accenture Report as an adequate review of Corporate Services, subject to Accenture providing the Board with a more extensive and detailed Summary of the findings, recommendations and issues identified in its Report, as well as satisfactory responses to any further questions the Board may have.

The Board has also concluded that its ongoing monitoring of the reasonableness of NSPI's Executive Compensation, an issue which has not yet been finalized, warrants inclusion in this independent review. As you are aware, this issue has been a concern of the Board since its 2002 decision which stated that:

The Board also directs NSPI to provide, on an annual basis, a detailed analysis showing executive management expenses, including compensation, expenses, memberships and other personal benefits including loans. Only then can the Board be satisfied that expenses are "...reasonable and prudent and properly chargeable..." in accordance with Section 45(2) of the Act.

(Board Decision, October 23, 2002, P-875, pp. 66-67)

The most recent Executive Compensation report currently under review by Board consultants (NSPI's November 16, 2006 filing) is in respect of compensation paid in 2005. This issue is of particular concern now in view of the significant compensation increases in 2006 which have apparently been awarded to NSPI officials, the cost of which (with the exception of 50% of incentive compensation which was charged by the Board to NSPI shareholders in an earlier decision) is

borne by NSPI ratepayers. The Board also has concerns regarding the compensation levels for certain Emera officials, based on the extent to which a portion of these costs may be allocated to NSPI and again, ultimately, to NSPI ratepayers.

The Board will address this issue in more detail in separate correspondence which will be provided to NSPI in the near future.

Yours truly,

Nancy McNeil
Regulatory Affairs Officer/Clerk

c.c.	S. Bruce Outhouse, Q.C., Board Counsel	By email
	Nancy Rubin, Avon Valley et al	By email
	John Merrick, Q.C., Consumer Advocate	By email
	David MacDougall, SEB	By email
	Dr. J. Stutz, Board Counsel Consultant	By email
	Formal Intervenors - P-886	By email