

CONFIDENTIAL (Attachment Only)

1 **Request IR-22:**

2

3 **Please provide a copy of the most recent annual financial update shared between the Plan's**
4 **actuary and the union executive (see Eckler IR-1, p. 2).**

5

6 Response IR-22:

7

8 The most recent annual financial update was provided to the union during meetings on March 22
9 and 23, 2012. Please refer to Confidential Attachment 1.

NON-CONFIDENTIAL

1 **Request IR-23:**

2
3 **In the initial response to Eckler's IRs, there were several referrals to Eckler IR-14:**

- 4 **▪ Eckler IR-1, p. 2, inferred that more detail around actions related to preparation for**
5 **negotiations could be found by referring to IR-14;**
- 6 **▪ Eckler IR-15 mentions comments made to NSPI's pension consultant and a submission**
7 **to government regarding proposed changes to the Pension Benefits Act. There is then a**
8 **referral to IR-14, presumably for more detail;**
- 9 **▪ Eckler IR-17 asks about (pension) proposals in collective bargaining. The response is a**
10 **referral to IR-14;**
- 11 **▪ Eckler IR-21 asks about steps taken to reduce funding requirements. The response is a**
12 **referral to IR-14.**

13
14 **The response to Eckler IR-14 does not appear to contain any information or attachments in**
15 **support of these referrals. Please confirm whether the initial response to IR-14 was**
16 **complete. If the initial response was not complete, please provide the remainder of the**
17 **response; if it was complete, please review your responses to IR-1, IR-15, IR-17, and IR-21,**
18 **and revise as appropriate.**

19
20 **Response IR-23:**

21
22 **All the referrals to Eckler IR-14 are in relation to the collective bargaining disclaimer at the**
23 **bottom of page 2. The responses to Eckler IR-1, Eckler IR-14, Eckler IR-15, Eckler IR-17, and**
24 **Eckler IR-20 are complete.**

REDACTED

1 **Request IR-24:**

2

3 **Please describe the alternative governance structures considered in preparing for**
4 **negotiations with IBEW 1928 (see Eckler IR-1, p. 2).**

5

6 Response IR-24:

7

8 The response to this Information Request is confidential.

NON-CONFIDENTIAL

1 **Request IR-25:**

2

3 **What changes to other large pension plans were reviewed in preparing for negotiations**
4 **with IBEW 1928 (see Eckler IR-1, p. 2).**

5

6 Response IR-25:

7

8 NS Power reviewed publically available information related to many pension plan changes. The
9 pension plans reviewed included the Nova Scotia Public Sector, Nova Scotia Teachers, the
10 Halifax Regional Municipality, the Nova Scotia Association of Health Organizations (NSAHO),
11 Dalhousie University, and Air Canada.

12

13 Please also refer to Eckler IR-26 Attachment 1 for details on a May 2012 benchmarking study
14 involving a number of large regional and industry pension plans; this was an update to a similar
15 benchmarking study performed in 2010. The changes between 2010 and 2012 for the
16 benchmarked plans were also reviewed.

17

18 The collective agreement between NS Power and the IBEW Local 1928 expired March 31, 2012.
19 Negotiations for the new collective agreement commenced in March 2012 and there have been
20 multiple meetings since then. Management and the union continue to meet in an effort to reach
21 an agreement.

CONFIDENTIAL (Attachment Only)

1 **Request IR-26:**

2

3 **Please provide a copy of the updated benchmarking study comparing the NSPI plan to**
4 **other large Canadian plans, and identify the plans (see Eckler IR-1, p. 2).**

5

6 Response IR-26:

7

8 Please refer to Confidential Attachment 1.

NON-CONFIDENTIAL

1 **Request IR-27:**

2

3 **Eckler IR-1, p. 3 indicates that the MPC oversees the plan's overall operation. Does the**
4 **MPC decide on strategic direction for the plan? If not, who has this responsibility? Who**
5 **decides the company's negotiating position related to pensions?**

6

7 Response IR-27:

8

9 Please refer to Eckler IR-29 Attachment 1.

10

11 The ultimate responsibility for the oversight, management, and administration of the pension
12 plan lies with the Board of Directors of NS Power. NS Power acts as both Sponsor and
13 Administrator.

14

15 As Sponsor, NS Power, through its Board of Directors, makes decisions which may arise from
16 corporate considerations, including but not limited, to what benefits to provide, whether to
17 terminate or continue a benefit program, and whether to change benefits as permitted by law.
18 Sponsor duties are outlined in the Governance Framework.

19

20 The Company's negotiating position on pensions is determined as part of the overall collective
21 bargaining strategy. The strategy is determined in conjunction with the executive management
22 team, the negotiating committee and external consultants and is reviewed by the NS Power
23 Management Resources and Compensation & Corporate Responsibility (MRCCR) Committee
24 for alignment and approval.

REDACTED

1 **Request IR-28:**

2
3 **The Statement of Investment Beliefs state that investment decisions must “**
4 **” and “** (Ecker
5 **IR-2, Att. 5, p. 1).**

- 6
7 a) **What are NSPI’s financial tolerances?**
8 b) **What would constitute an undue financial burden?**
9 c) **Has NSPI tested their susceptibility to these tolerances under different economic**
10 **scenarios?**
11 d) **Are there scenarios under which NSPI believes its defined benefit plans to be**
12 **unsustainable?**

13 **Response IR-28:**

14
15 (a-b) Investment decisions are usually undertaken by NS Power after the completion of an
16 asset liability study. The most recent study was conducted over the period 2010 to 2011
17 and considered the potential outcomes over the next ten years. For purposes of this
18 study, the key metrics to assess NS Power’s financial tolerance were:

- 19
20 (i) expected cash funding;
21 (ii) volatility in cash funding;
22 (iii) expected pension expense;
23 (iv) volatility of pension expense;
24 (v) the Plan’s going concern funded ratio; and
25 (vi) the Plan’s solvency funded ratio; and
26 (vii) the Plan’s accounting funded ratio.

27
28 Given the seven metrics, there are seven different investment strategies, each of which
29 would be optimal to satisfy a particular metric, but less than optimal for the other six

REDACTED

1 metrics. For example, in order to minimize volatility of pension expense, a
2 predominately fixed income investment strategy would have to be adopted; however, this
3 would be expected to increase pension expense, cash funding, and reduce the Plan's
4 going concern funded ratio. Any investment strategy is a compromise between the seven
5 metrics with the goal of finding the best compromise.

6
7 NS Power provided goals for each of the above metrics and reviewed the likelihood of
8 meeting the goals over the ten year study period under six potential asset mixes. As part
9 of the study, 500 stochastic simulations were run for the ten year period of the study, for
10 a total of 5,000 years of projections based on assumptions that were provided and
11 recommended by the consultant firm engaged to assist with the study. For each asset
12 mix, NS Power reviewed the range of outcomes, including the worst 5 percent of all
13 outcomes over the ten year period (outcomes for this one in twenty event can be
14 considered outliers and the use of the 5th percentile is standard measurement in stochastic
15 studies). NS Power determined that the 5th percentile of worst case outcomes would not
16 constitute undue financial burden to NS Power. The 5th percentile worst case outcomes
17 under the actual asset mix at the time of the study, along with the most current financial
18 figure (shown in brackets) are as follows:

19
20 The pension expense figures shown in this response relate only to the amount attributable
21 to the NS Power employees' registered pension plan. In the Application and support
22 materials, the term "pension expense" is more generally used to refer to the expense
23 attributable to all of NS Power's pension and post-employment benefit plans. The funded
24 ratios shown below are based on the plan's market value of assets.

- 25
26 (i) annual cash funding: [REDACTED] (projected \$60.5 million for 2013)
27 (ii) annual change in cash funding requirements: [REDACTED] (projected [REDACTED]
28 change between 2011 actual and 2012 actual)
29 (iii) annual pension expense: [REDACTED] (\$48 million included in 2013 GRA)

REDACTED

- 1 (iv) annual change in pension expense: [REDACTED] (projected [REDACTED] change
2 between projected 2012 actual to 2013 GRA)
3 (v) the Plan's going concern funded ratio: [REDACTED] (actual [REDACTED] at December
4 31, 2011)
5 (vi) the Plan's solvency funded ratio: [REDACTED] (actual [REDACTED] at December 31,
6 2011)
7 (vii) the Plan's accounting funded ratio: [REDACTED] (actual [REDACTED] at December 31,
8 2011)
9

10 As the study was being conducted, NS Power recognized that there were potential
11 outcomes below the accepted tolerance that would cause financial stress in one or more
12 of the metrics. As you can see from the above, some of the actual outcomes, primarily
13 the cash requirements and solvency position, do fall below the 5th percentile. For the
14 pension plan, the primary consideration in setting rates is the pension expense.
15

16 The current financial situation is primarily due to the significant reduction in long-term
17 interest rates during 2011 which affected virtually all pension plans. This has the most
18 significant impact on accounting and solvency cash funding requirements. For defined
19 benefit pension plans, the low interest rates tends to impact the plan sponsor (higher
20 contributions, higher pension expense), whereas for defined contribution pension plan,
21 the low interest rates have a direct impact on employees (lower return on investments,
22 delayed retirement) which may result in a longer-term impact on the plan sponsor
23 (succession planning/workforce management as it relates to member's financial ability to
24 retire).
25

- 26 (c) As mentioned above, stochastic modelling (method of financial modeling in which one or
27 more variables within the model are random; stochastic modeling is for the purpose of
28 estimating the probability of outcomes within a forecast to predict what conditions might
29 be like under different situations) was performed to assess various future economic

REDACTED

1 scenarios with a total of 5,000 years modelled. Certain economic scenarios such as a
2 continuation of low and declining interest rates coupled with weak capital market
3 performance have the potential to challenge the long term sustainability of the plan as
4 measured by the key metrics.

- 5
6 (d) The potential worst outcomes for the pension plan could be referred to as black swan
7 event (an event or occurrence that deviates beyond what is normally expected of a
8 situation has a major impact, and that would be extremely difficult to predict).

9
10 For NS Power, similar to other businesses, there are a number of potential black swan
11 events. There are scenarios where the cost and expense of the defined benefit plan
12 become very significant and unsustainable. NS Power management is aware of the
13 pension plan costs and is considering various options to manage it. Please refer to Eckler
14 IR-11 Attachment 3, as well as Confidential Attachment 1.

15
16 Financial management of the plan can come from changes to the pension plan terms.
17 Any changes to the pension plan for union members must be made through the collective
18 bargaining process. Please refer to Eckler IR-25.

19
20 Please also refer to Eckler IR-19.

2013 General Rate Application (NSUARB P-893)
NSPI Responses to Eckler Information Requests

CONFIDENTIAL (Attachment Only)

1 **Request IR-29:**

2

3 **Please provide a copy of the Pension Governance Framework. (see Eckler IR-6, att. 1, p. 4)**

4

5 Response IR-29:

6

7 Please refer to Confidential Attachment 1.