NON-CONFIDENTIAL

Request IR-1:

Refer to Exhibit N-1, NS Power's Application in M11990, p. 6, lines 18-21, and p. 8 at line 22, both quoted below and answer the questions that follow:

> **"The predominant rating used by Commercial Paper investors in Canada is provided by the DBRS Morningstar (DBRS). NS Power's current Commercial Paper rating is R-2 (high) and is below the minimum credit rating of R-1 (low) required to participate in the Commercial Paper market. The Company received an exemptive relief from the requirement to have R-1 (low) rating in 2023." Exhibit N-1 p. 6, lines 18-21.**

> **"NS Power's debt is currently rated BBB (high) by DBRS and BBB- by S&P Global (S&P)." Exhibit N-1, p. 8 at line 22.**

(a) Please provide electronic copies of the most recent credit rating reports issued by DBRS and S&P Global (S&P) consistent with this current filing.

Response IR-1:

Please refer to Attachment 1 for DBRS Morningstar, Attachment 2 for S&P Global, and Attachment 3 for S&P Global for updated outlook for NS Power.

MORNINGSTAR | DBRS

Rating Report
Nova Scotia Power Inc.

Morningstar DBRS
January 15, 2025

Commercial Paper Limit
$800 million

Contents

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Credit Ratings

Obligation	Rating	Rating Action	Trend
Issuer Rating	BBB (high)	Confirmed	Stable
Unsecured Debentures & Medium-Term Notes	BBB (high)	Confirmed	Stable
Commercial Paper	R-2 (high)	Confirmed	Stable

Credit Ratings Drivers

Positive Credit Rating Drivers	Negative Credit Rating Drivers
A positive credit rating action could occur if (1) the regulatory process for the next GRA conducted free of any interference and with the NSUARB's full independence on the determination of rates, (2) establishment of the NSIESO which will reduce NSPI's exposure to penalties under the RER, and (3) key credit metrics in line with the "A" credit rating category.	A negative credit rating action could occur if there is further political interference in the regulatory process for NSPI, or if key credit metrics weaken to a level no longer supportive of the current ratings (i.e., cash flow-to-debt remaining below 10% for a sustained period).

Key Credit Rating Considerations

The ratings of Nova Scotia Power Inc. (NSPI or the Company) are based on its integrated electricity operations under the Nova Scotia Utility and Review Board (NSUARB). The Stable trends reflect the Company's key credit metrics which are in line with the BBB rating category.

There were several positive developments for NSPI in 2024. In April, the NSUARB approved for the sale of $117 million of fuel-adjustment mechanism (FAM) regulatory assets from NSPI to the Province of Nova Scotia (the Province; rated A (high) with a Stable trend). NSPI will collect this amount from customers on behalf of the Province over a 10-year period. In September 2024, the federal government also finalized an agreement with NSPI, NSP Maritime Link Inc. (NSPML; Maritime Link Financing Trust rated (P) AAA with a Stable trend), and the Province for a federal loan guarantee of $500 million of debt to be issued by NSPML. Proceeds from this December 2024 issuance were transferred to the Company and applied against the FAM regulatory asset balance. NSPI will collect this amount from customers on behalf of NSPML over a 28-year period. These two transactions (1) will reduce debt at the Company by $617 million, (2) reduce regulatory lag for NSPI disposing of the balance in the FAM, and (3) reduce rate pressure on customers as the recovery is spread over a much longer period.

Furthermore, in April 2024, the Province enacted *Bill 404 - Energy Reform (2024) Act*. Bill 404 enacts the *More Access to Energy Act*, which provides for the establishment and transition to the Nova Scotia Independent Energy System Operator (NSIESO). The NSIESO will be tasked with operating the Provincial electricity grid as well as energy forecasting and resource planning. This will streamline NSPI's responsibilities so it can focus on its operations as an integrated utility. Importantly, while the Company will still be required to adhere to climate change regulations and, as the dominant utility in the Province, be involved in the transition, the responsibility for procuring renewable energy in the Province and meeting targets under the Renewable Electricity Regulations (RER) are expected to be transferred to the NSIESO.

While these developments will strengthen NSPI's financial metrics and reduce uncertainty under the RER, we remain concerned about potential political interference in the next regulatory review process. We note that during the recent November Provincial election, the Progressive Conservative's (PC) platform included a proposal to cap electricity rate increases at the average increase across the country. Should legislation be enacted by the Province that, once again, diminishes the NSUARB's independence and impacts the Company's ability to fully recover its costs in its next General Rate Application (GRA), a negative rating action would likely occur.

Earnings Outlook

Earnings for NSPI have generally been very stable, reflecting the regulated nature of its operations. The Company has a FAM in place that allows it to recover actual fuel costs from customers through annual rate adjustments. Earnings increased in 2023 because of a base-rate increase of 1.8% effective February 2023; however, NSPI achieved a return on equity (ROE) of 8.25%, which was below the approved regulated ROE band of 8.75% to 9.25%. We do not expect the Company's financial performance to materially improve until the next GRA and rates are rebased, which we expect to occur in 2026.

Financial Outlook

NSPI's key credit metrics strengthened in the last 12 months ended September 30, 2024 (LTM 2024), because of the stronger earnings and cash flows, and the reduction in debt following the sale of the $117 million balance in the FAM to the Province. We expect the Company's metrics to further strengthen in 2024 following the $500 million transfer from NSPML, proceeds of which were used to pay down debt. NSPI has a significant capital expenditures (capex) program, however (around $630 million annually for the next three years), as the Company invests in reliability of the network and growth in the customer base. We expect NSPI to be prudent in financing its capex and dividends to maintain key credit metrics in line with the BBB credit rating range. NSPI's parent company, Emera Inc. (Emera), has historically been supportive of the Company by maintaining a flexible dividend payout policy (none paid in 2023 and 2024) and providing equity injections ($308 million received in 2023) to maintain leverage in line with the regulatory capital structure.

Financial Information

	12 mos. ended Sep. 30	For the year ended December 31				
	2024	2023	2022	2021	2020	2019
Cash flow/total debt (%)	10.7	9.9	9.8	12.9	12.6	14.4
Total debt in capital structure (%)[1]	64.5	66.3	69.9	66.3	66.6	62.4
EBIT gross interest coverage (x)	1.32	1.39	1.58	1.97	2.02	2.00

1 Adjusted for accumulated other comprehensive income.

Issuer Description

NSPI is a fully integrated, regulated utility that generates, transmits, and distributes electricity in Nova Scotia. The Company is wholly owned by Emera, which is a diversified energy and energy-services holding company.

Business Risk Assessment

1. Low-risk regulated electricity business

The Company's current regulatory framework is based on a cost-of-service (COS) methodology, under which NSPI can recover all prudently estimated operating expenses and earn a reasonable return on approved capital investments. We view NSPI's target ROE range of 8.75% to 9.25% as reasonable and in line with the Company's Canadian peers. NSPI is also allowed to use a FAM, which mitigates the risk associated with fluctuating fuel prices. Under the FAM, the difference between actual fuel costs and amounts recovered from customers (through fuel rates) are deferred and collected from or refunded to customers in subsequent years. We note, however, the recent intervention by the Province in the GRA process has heightened regulatory risk and introduced volatility and instability for the Company.

2. Political intervention in the ratemaking process

In November 2022, the Province passed Bill 212, which amended the Public Utilities Act to cap the base-rate increase for NSPI's most recent GRA at 1.8% during the 2022 to 2024 period, excluding demand side management (DSM) and fuel and purchased power costs, and to limit the allowed ROE and deemed equity to 9.25% and 40.0%, respectively. We consider any political interference in the ratemaking process as credit negative because it introduces instability and unpredictability in the regulatory framework, and it impairs the independence of the regulator in determining the appropriate ROE and deemed equity ratio.

3. Unfavourable generation mix

As a result of the current generation mix, NSPI is dependent on international suppliers for its fuel supply, exposing the Company to volatile global pricing. This exposure, combined with continued investment in renewable energy, contributed to higher-than-average electricity retail rates compared to other Canadian provinces. Higher electricity rates could make it increasingly challenging for NSPI to fully pass on costs to ratepayers in a timely manner. Energy delivery from the Muskrat Falls Hydroelectric Project, which began in 2021, will reduce the contribution of coal-based assets; however, these assets are still expected to constitute a part of the generation mix until 2030. The Canada-Nova Scotia Equivalency Agreement (the Equivalency Agreement) should allow NSPI to remain compliant with federal emission regulations through 2029; however, federal and provincial regulations mandate the closure of all coal-based power plants by 2030, and significant investments will be needed to replace coal-generating capacity.

4. Good franchise strength

NSPI is the primary electricity supplier for the Province, providing more than 95% of its electricity generation, transmission, and distribution. Although the *Electricity Reform (2013) Act* permits licensed retail suppliers to sell renewable electricity generated within the Province directly to retail customers under established tariffs (renewable-to-retail tariffs), we do not expect a material attrition rate to weaken NSPI's franchise strength significantly. As at September 30, 2024, no retail suppliers were operating under these renewable-to-retail tariffs.

5. Regulatory lag

NSPI faces some regulatory risk with respect to the timeliness of fuel cost recovery, although this risk is lower now than when the FAM was not in place. Although the FAM allows the Company to recover fluctuating fuel expenses from its customers, the rate adjustments are annual and subject to the NSUARB's approval. We expect the impact of fluctuating fuel prices to lessen going forward with energy delivery from the Muskrat Falls Hydroelectric Project, which increased the contribution of renewable energy supply to the Company's overall generation mix.

Financial Risk Assessment

1. Reasonable financial profile

NSPI's key credit metrics are reasonable for the current rating category. For the LTM 2024, the Company's cash flow-to-debt ratio was in line with the BBB rating category, while the stronger debt-to-capital ratio offset a weaker EBIT-to-interest coverage.

2. Limited access to equity markets

NSPI has limited access to common equity markets to fund any free cash flow deficits. As such, we expect Emera to continue to support the Company's capex program with a flexible dividends policy and equity injections, if needed.

Environmental, Social, and Governance Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		Overall:	Y	R
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuer's financial, operational, and/or reputational standing?	N	N
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long-term credit profile?	Y	R
	Resource and Energy Management	Does the scarcity of sourcing key resources hinder the production or operations of the issuer, resulting in lower productivity and therefore revenues?	N	N
	Land Impact and Biodiversity	Is there a financial risk to the issuer due to the loss of biodiversity and/or the mitigation of such loss, including land conversion and rehabilitation?	N	N
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N
		In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by physical and/or transition risks under key IPCC climate scenarios?	N	N
		Climate and Weather Risks	N	N
	Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social		Overall:	N	N
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services pose a financial or regulatory risk to the issuer?	N	N
		Do changes in consumer behaviour or secular social trends pose a financial or regulatory risk to the issuer?	N	N
		Social Impact of Products and Services	N	N
	Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts, that could result in a material financial or operational impact?	N	N
		Do violations of rights create a potential liability that can negatively affect the issuer's financial wellbeing or reputation?	N	N
		Human Capital and Human Rights	N	N
	Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N
	Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	N	N
	Occupational Health and Safety	Would the failure to address workplace hazards have a negative financial impact on the issuer?	N	N
	Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
	Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N
	Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
Governance		Overall:	N	N
	Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N
		Are there any political risks that could affect the issuer's financial position or its reputation?	N	N
		Bribery, Corruption, and Political Risks	N	N
	Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N
	Corporate / Transaction Governance	Does the issuer's corporate structure allow for appropriate board and audit independence?	N	N
		Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N
		Does the board and/or management lack a formal framework to assess climate related financial risks to the issuer?	N	N
		Corporate / Transaction Governance	N	N
	Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
		Consolidated ESG Criteria Output:	Y	R

ESG Considerations

Environmental

Carbon and greenhouse gas (GHG) costs had a relevant effect on the credit analysis of NSPI. We consider the Company's transition from reliance on coal-based generation (51% of 2023 installed generation capacity) to lower-emitting sources to be a challenge, as coal-fired generation is mandated to be phased out, and 80% of electricity sales are to be from renewable sources by 2030. We note that once the NSIESO is established, the responsibility of procuring renewable energy in the Province will transition away from NSPI. However, we expect significant investments will still be needed by the Company, including substantial funding support from both the Provincial and Federal governments.

Social

There were no social factors that had a relevant or significant effect on the credit analysis. As a regulated utility, NSPI provides an essential service to its customers. Any disruptions in its operations could result in reputation damage as well as financial penalties. As of Q3 2024, the Company had 1.48 outages per customer and 3.99 hours of outages per customer, both of which were below the 2024 target of 2.05 outages and 4.29 hours, respectively. NSPI is also committed to the safety of its employees and customers.

Governance

There were no governance factors that had a relevant or significant effect on the credit analysis. NSPI's board of directors includes nine members, seven of whom are independent directors. The board has oversight over climate-related issues at the Company.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in *Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings* at https://dbrs.morningstar.com/research/437781.

Rating History

	Current	2023	2022	2021	2020	2019
Issuer Rating	BBB (high)	BBB (high)	BBB (high)	A (low)	A (low)	A (low)
Unsecured Debentures & Medium-Term Notes	BBB (high)	BBB (high)	BBB (high)	A (low)	A (low)	A (low)
Commercial Paper	R-2 (high)	R-2 (high)	R-2 (high)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Action

- "DBRS Morningstar Confirms Credit Ratings on Nova Scotia Power Inc. at BBB (high) and R-2 (high), Stable Trends," December 20, 2023.

Previous Report

- Nova Scotia Power Inc.: Rating Report, January 12, 2024.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on dbrs.morningstar.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

Appendix 1—Liquidity and Debt Profile

Liquidity

(CAD millions as at September 30, 2024)	**Amount**	**Drawn/Letter of Credit**	**Available**	**Expiry**
Cash & cash equivalents	3	-	3	N/A
Committed revolving facilities	800	291	509	June 2029
Total	**803**	**291**	**512**	

- We consider the Company's liquidity position to be adequate with sufficient headroom under its committed revolving credit facility to support operating requirements.
- NSPI has an $800 million credit facility maturing in December 2029.
    - The credit facility is used to backstop the Company's $800 million commercial paper (CP) program and to partially fund its working capital and capex requirements. Availability under the credit facility is reduced by the amount of CP issued. The credit facility is also subject to a financial covenant (debt-to-capital ratio of less than or equal to 70.0%), and NSPI is in compliance with the covenant as at September 30, 2024.

Long-term Debt

(CAD millions as at September 30, 2024)	**2024**	**2025**	**2026**	**2027**	**2028**	**Thereafter**	**Total**
Total long-term debt	0	425	40	0	0	3,268	**3,733**
%	0	11	1	0	0	88	**100**

- NSPI's long-term debt maturities are well spread out with minimum refinancing risk in the near term.
- The Company has a debenture covenant, which states that NSPI would not incur debt if its funded debt would be more than 75% of total capitalization. The debenture covenant is not expected to restrict the Company's operations going forward or pose any challenges in the near to medium term.

Appendix 2—Regulation

- NSPI operates under the NSUARB's regulatory environment using a COS methodology that allows the Company to recover all prudently estimated operating expenses and earn a reasonable return on approved capital investments.
- NSPI's target ROE range, approved by the NSUARB, is between 8.75% and 9.25% based on an actual five-quarter average-regulated common equity component of up to 40.00%.
    - The Company historically achieved actual ROE in the higher end of the target range.
- NSPI is not subject to an annual rate review process; rather, the Company participates in a general rate-setting process from time to time at its discretion or at the NSUARB's request.
- In November 2022, the Province amended the Public Utilities Act through Bill 212 to cap base-rate increases for NSPI at 1.8% during the 2022 to 2024 period and limit the ROE and deemed equity to, respectively, 9.25% and 40.0%. Bill 212 also requires that the base-rate increase can be used only for the improvement of reliability of services to customers.
    - We consider this political intervention to be negative to the regulatory assessment of NSPI as it interferes with the stability and predictability of the ratemaking process as well as the independence of the NSUARB in determining the appropriate ROE and deemed equity for the Company.
- In February 2023, the NSUARB approved most of a negotiated settlement filed by NSPI and intervenors for the Company's GRA for rates effective 2022 to 2024. Under the negotiated settlement, the NSUARB approved the following:
    - An average rate increase of 6.9% for each 2023 and 2024 composing of a base-rate increase of 1.8%, a DSM increase of 3.6% and a fuel increase of 1.5% for 2023, and a DSM increase of 0.3% and a fuel increase of 6.6% in 2024;
    - ROE unchanged at 9.0% based on an earnings band of 8.75% to 9.25%;
    - Maximum allowed equity unchanged at 40%;
    - A decarbonization deferral account to recover undepreciated thermal asset value and unrecovered decommissioning costs; and
    - Storm rider for NSPI to have the option to apply for the recovery of major storm restoration expenses exceeding $10.2 million, $10.4 million, and $10.4 million for 2023, 2024, and 2025, respectively.
- In December 2024, the NSUARB approved a Storm Rider of $24 million to be recovered in 2025.
- NSPI also files an annual capex (ACE) plan with the NSUARB, which outlines its capital outlay for the forecast period. All spending for capital assets more than $1,000,000 is subject to the NSUARB's approval.
    - In August 2024, the NSUARB approved the 2024 ACE plan of $151.9 million.
- NSPI has a FAM in place that, subject to the NSUARB's review and approval, allows the Company to recover fluctuating fuel expenses through annual rate adjustments.
    - In April 2024, NSPI sold $117 million of the FAM regulatory asset to the Province. The Company will collect this amount from customers on behalf of the Province over a 10-year period.

- In December 2024, NSPML issued $500 million of debt, guaranteed by the federal government, the proceeds of which were transferred to NSPI to reduce the balance under its FAM regulatory account. The Company will collect this amount on behalf of NSPML over a 28-year period.

Environmental Regulation

- In October 2017, the Province passed amendments to the Environment Act for the development of a cap-and-trade program for carbon emissions, which became effective on January 1, 2019.
  - In July 2021, the Province amended the RER to mandate that 80% of electricity sales should be from renewable sources by 2030.
  - In November 2021, the Province passed the Environmental Goals and Climate Change Reduction Act, which mandated the phasing out of coal-fired generation by 2030.
- In November 2014, the Province and the Government of Canada (rated AAA with a Stable trend) entered into an Equivalency Agreement regarding GHG from electricity producers in the Province. The Equivalency Agreement allows NSPI to achieve compliance with federal GHG emission regulations by complying with provincial regulatory requirements, which are deemed equivalent. The Equivalency Agreement came into force on July 1, 2015, and was terminated on December 31, 2019.
  - In December 2018, the Government of Canada published new federal GHG regulations for coal-fired electricity plants. Under the regulations, power plants that emit more than 420 tonnes of carbon dioxide emission from fossil fuels for each gigawatt hour (GWh) of electricity generated will have to be closed by (1) the earlier of (A) December 31 of the calendar year 50 years after the commissioning date and (B) December 31, 2019, if commissioned before 1975; or (2) the earlier of (A) December 31 of the calendar year 50 years after the commissioning date and (B) December 31, 2029, if commissioned after 1974.
  - In December 2019, the Province and the Government of Canada renewed the Equivalency Agreement, which will allow NSPI to achieve compliance with the federal GHG regulation until 2029 by complying with provincial regulations. The renewed Equivalency Agreement came into force on January 1, 2020, and was renewed in August 2024 until December 31, 2029.
  - As a result of the COVID-19 pandemic, there was a delay to the in-service date for the Muskrat Falls Project, delaying the delivery of power to NSPI; the Company would thus be unable to achieve the provincially legislated target of 40% of electric sales generated from renewable sources in 2020.
  - In May 2020, the Province provided an alternative compliance plan, where NSPI would have to meet the 40% target over a three-year period of 2020 to 2022.
- In April 2023, the Province levied a $10 million penalty on NSPI for noncompliance with the RER in 2022.
  - The Company has filed an application with the NSUARB appealing the penalty.
- In October 2023, the Province published its 2030 Clean Power Plan.

  - Under the plan, the Province intends to add new wind, solar, and natural gas generation capacity, as well as deploy battery storage and for the construction of a new transmission line to New Brunswick to improve reliability.
- In April 2024, the Province enacted *Bill 404 - Energy Reform (2024) Act*.
  - Bill 404 enacts the *More Access to Energy Act*, which provides for the establishment and transition to the NSIESO, which will be tasked with operating the Provincial electricity grid as well as energy forecasting and resource planning.

Assessment of Regulatory Framework

Criteria	Score	Analysis
1. Deemed Equity	Excellent Good Satisfactory **Below Average** Poor	NSPI's target-regulated ROE is based on an actual five-quarter average-regulated common equity component of up to 40.0%. We note that under Bill 212, the Company's deemed equity is capped at 40.0% for 2022 to 2024.
2. Allowed ROE	Excellent **Good** Satisfactory Below Average Poor	NSPI's target regulated ROE range is between 8.75% and 9.25%. Actual regulated ROE had historically been in the higher end of this target range but will likely be at the bottom of the range for 2022 to 2024. We note that under Bill 212, the Company's ROE is capped at 9.25% for 2022 to 2024.
3. Energy Cost Recovery	Excellent Good Satisfactory **Below Average** Poor	Fuel costs are passed to customers through the FAM, and rates change annually to account for variances between forecast and actual fuel costs. Fuel costs are subject to an independent audit by the NSUARB that could potentially disallow a portion of fuel-related costs.
4. Capital and Operating Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	Capital costs of more than $1,000,000 are generally preapproved by the regulator, but there is some modest upfront capex before regulatory approval. NSPI earns an allowance for funds used during construction (AFUDC). Once the project is complete and put into service, the cost of the asset, including AFUDC, is recovered from customers through rates.
5. COS versus Incentive Rate Mechanism	**Excellent** Good Satisfactory Below Average Poor	NSPI is regulated under a COS model that allows the Company to recover all prudently estimated operating expenses and earn a reasonable return on approved capital investments.
6. Political Interference	Excellent Good Satisfactory Below Average **Poor**	In November 2022, the Province passed Bill 212, which amended the Public Utilities Act and directly interfered with the ongoing GRA for NSPI's 2022 to 2024 rates. We consider this adverse intervention to be negative for the Company's regulatory environment as it injected volatility and heightens uncertainty with the regulatory process. We further note that in the most recent election campaign, the PC's platform included capping rate increases for NSPI at the country wide average.
7. Stranded Cost Recovery	Excellent **Good** Satisfactory Below Average Poor	The NSUARB disallowed the recovery of some, but not a material amount of, fuel-related costs.
8. Rate Freeze	Excellent Good Satisfactory **Below Average** Poor	The retail residential electricity rates in the Province are higher than the average among Canada's provinces. This could make it challenging for NSPI to pass all costs on to ratepayers in a timely manner. As part of Bill 212, the Province capped rate increases for the Company's 2022 to 2024 GRA at 1.8% for base rates, excluding DSM and fuel and purchase power costs.

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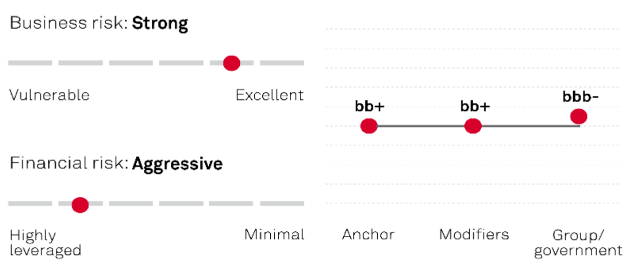
S&P Global Ratings

RatingsDirect®

Nova Scotia Power Inc.

February 12, 2024

Ratings Score Snapshot



BBB-/Negative/--

Issuer credit rating

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Credit Highlights

The provincial government of Nova Scotia recently proposed to compensate Nova Scotia Power Inc. (NSPI) about $117 million to offset the deferred fuel cost liability. NSPI generally recovers the incurred fuel cost from customers through annual fuel rate adjustments. The differences between the incurred fuel costs and amounts recovered from customers through electricity rates each year are deferred to a fuel adjustment mechanism (FAM) regulatory asset or liability and recovered from or returned to customers in subsequent years. In 2020-2022, NSPI operated under a three-year fuel stability plan with no fuel rate adjustments related to the under-recovery of fuel costs. In 2023, the Utility and Review Board (UARB) approved the general rate application that allowed NSPI to increase its revenue by 6.9% each for 2023 and 2024. 6.6% of the 2024 6.9% increase largely reflects the recovery of the incurred fuel cost.

Because any further recovery of fuel costs would have significantly pressured customer bills in Nova Scotia, the provincial government proposed to pay NSPI $117 million up front and recover the amount from customers over the next 10 years, which reduces the pressure on customer bills related to the deferred fuel cost recovery The $117 million compensation to NSPI from the provincial government indicates their willingness to extend support under challenging circumstances, thereby modestly improving the operating environment for NSPI. However, we expect NSPI to recover the remaining balance of deferred fuel cost of about $278 million from customers by adjusting rates through future rate applications, further pressuring customer bills.

NSPI was fined $10 million for failing to remain compliant under the Renewable Electricity Regulations (RER). Under the provincially legislated RER and alternative compliance plan, NSPI was required to derive 40% of its average electricity generation from renewable sources for 2020-2022. As per NSPI, the company was unable to achieve the requirements of the alternative compliance plan, largely driven by factors beyond their control including the delay in completion of the Muskrat Falls hydroelectric project and further interruptions in supply due to delays in the Labrador Island Link. NSPI appealed the penalty with the UARB, and we continue to monitor the proceedings.

Furthermore, the RER also requires NSPI to retire coal generation and mandates 80% of electricity supply from renewable generation sources by 2030. To achieve this target, NSPI would require significant capital investments in addition to continued imports of hydroelectricity supply from Muskrat Falls, incorporation of grid scale batteries and, a new transmission line from Nova Scotia to New Brunswick to facilitate the flow of renewable electricity. We continue to monitor NSPI's capital investment strategy, the management of regulatory risk, and potential government support as the company seeks to recover the prudently incurred costs amid the challenging macroeconomic environment of inflationary pressure and higher interest rates.

Outlook

The negative outlook on NSPI reflects our negative outlook on its parent Emera. We expect NSPI's stand-alone financial measures will reflect funds from operations (FFO) to debt of 10%-12% through 2025.

Downside scenario

We could lower our ratings on NSPI over the next 12 months if:

- We downgrade Emera; or
- NSPI's group status further weakens and its stand-alone financial measures consistently decline below our base case such that its FFO to debt falls below 10%.

Upside scenario

We could affirm our ratings on NSPI and revise our outlook to stable over the next 12 months if we affirm our ratings on Emera and revise our outlook to stable. Alternatively, we could revise our outlook on NSPI to stable if its stand-alone FFO to debt improves to consistently above 12% absent an increase in its business risk.

Company Description

NSPI is a vertically integrated electric utility operating in Nova Scotia that contributes 15%-20% of its parent's consolidated net income. NSPI has C$6.1 billion of assets and provides electricity generation, transmission, and distribution services to approximately 540,000 customers. NSPI owns generation capacity of about 2,420 megawatts, which it largely derives from coal (44% of total) and natural gas (28% of total).

Rating Component Scores	
Foreign currency issuer credit rating	**BBB-/Negative/--**
Local currency issuer credit rating	**BBB-/Negative/--**
Business risk	**Strong**
Country risk	Very Low
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk	**Aggressive**
Cash flow/leverage	Aggressive
Anchor	**bb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bb+**
Group credit profile	**bbb**
Entity status within group	Strategically Important (+1 notch from SACP

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of February 12, 2024)*

Nova Scotia Power Inc.	
Issuer Credit Rating	BBB-/Negative/--
Commercial Paper	
Canada National Scale Commercial Paper	A-3(Cdn)
Senior Unsecured	BBB-
Issuer Credit Ratings History	
21-Nov-2022	BBB-/Negative/--
24-Oct-2022	BBB+/Negative/--
24-Mar-2020	BBB+/Stable/--
Related Entities	
Emera Inc.	
Issuer Credit Rating	BBB/Negative/--
Preference Stock	
Canada National Scale Preferred Share	P-3(High)
Preference Stock	BB+
Preferred Stock	
Canada National Scale Preferred Share	P-3(High)
Preferred Stock	BB+
Senior Unsecured	BBB-
Subordinated	BB+
Tampa Electric Co.	
Issuer Credit Rating	BBB+/Negative/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB+
TECO Energy Inc.	
Issuer Credit Rating	BBB/Negative/NR
Teco Finance Inc.	
Issuer Credit Rating	BBB/Negative/NR

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

S&P Global Ratings

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Research Update:

Emera Inc. And Subsidiaries Outlook Revised To Stable From Negative On Improving Credit Strength, Ratings Affirmed

January 22, 2025

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Rating Action Overview

- Emera Inc. executed on several credit-supportive initiatives during 2024 to strengthen its balance sheet following recent years of operational underperformance.
- Specifically, we believe proceeds from non-core asset sales, securitization of deferred fuel costs, and hybrid issuance will facilitate meaningful deleveraging. Combined with the recent multi-year rate case outcome at Tampa Electric Co. (TEC); we believe Emera will be able to sustain funds from operations (FFO)-to debt comfortably above 10% in 2025 and 2026.
- As such, we revised the outlook on Emera and its subsidiaries to stable from negative.
- At the same time, we affirmed our ratings on Emera Inc., including the 'BBB' issuer credit rating (ICR). We also affirmed our ICRs on its subsidiaries, including the ‘BBB+’ ICR on TEC and the ‘BBB-’ ICR on Nova Scotia Power Inc. (NSPI).
- The stable outlook reflects our view that the constructive steps taken by management toward deleveraging should allow the company to sustain improved credit measures, with FFO to debt projected to average in the 11%-12% range through 2026.

Rating Action Rationale

The outlook revision to stable from negative and ratings affirmation reflects our expectation of improved financial measures in fiscals 2025 and 2026. Emera executed on several of its deleveraging plans during 2024 which include securitization of deferred fuel costs, hybrid debt issuance, and sale of its equity investment in Labrador Island Link. We believe these initiatives coupled with TEC’s recent multi-year base rate outcome and the sale of the New Mexico Gas utility by end of 2025, will meaningfully improve leverage. Specifically, we project FFO-to-debt of about 10% in 2024, improving to the 11%-12% area through 2026, above our 10% downside threshold underpinning the stable outlook.

Constructive rate case outcome at TEC will improve gross margins in 2025 and 2026. TEC was recently approved for about 70% of its requested multi-year base rate adjustment: base rate increases of $185 million for 2025 and $87 million for 2026. While the approval for 2027 was modest, we assume the company will effectively manage regulatory risk and file additional rate cases to recover capital costs for outer years. In addition, New Mexico Gas's rate application was approved to raise base rates by $30 million from October 2024. Previously, new rates were also implemented at PeoplesGas following FPSC's approval in November 2023 to support an $107 million increase in base rates, inclusive of moving $11 million from the cast iron and bare steel replacement rider. Given the above base rate increases and assuming continued customer growth in Florida and Nova Scotia, we project meaningful gross margin additions in 2025 and 2026 bolstering credit measures.

Proceeds from noncore asset sales and hybrid issuance will facilitate deleveraging. During June 2024, the company sold its equity investment in Labrador Island Link for C$957 million cash, using proceeds to lower debt. During this period, the company also completed a hybrid issuance of $500 million that we assessed as having 50% equity content further strengthening credit measures. As of Sept 30, 2024, the company had reduced long-term debt by about C$510 million. These two initiatives improve cash flow to debt measures by 80 basis points.

The company is also in agreement to sell its wholly owned regulated gas distribution utility, New Mexico Gas Co., for net proceeds of $750 million and expects the transaction to close by the end of this year, subject to regulatory approvals by New Mexico Public Regulation Commission and pursuant to the Hart-Scott-Rodino Antitrust Improvements Act. While we factor this transaction in our 2025 base case which improves FFO-to-debt by 70 basis points (bps); in the event the sale does not close, we believe credit measures should remain above 10% and, in this scenario, we assume management would likely issue equity to bridge funding gaps.

Securitization of deferred fuel costs will help lower leverage on a consolidated basis. Most recently, the company received a Canadian federal loan guarantee to securitize C$500 million of current and future fuel balances at NSPI; the company used proceeds toward reducing debt at NSPI. This follows the C$117 million NSPI received from the provincial government earlier in 2024 toward the deferred fuel cost recovery. We view these favorably as they reduced debt on a consolidated basis, while also reducing the regulatory lag associated with recovery of higher fuel costs in Nova Scotia which in recent years pressured NSPI's credit measures. Furthermore, the government support also decreases the rate impact on customers by spreading out the recovery over a longer period (10 years for the provincial funding and 28 years for the federal loan).

We project Emera's financial measures to remain consistent with the aggressive financial risk profile. We continue to assess Emera's financial risk as aggressive based on our expectation that FFO to debt will improve from 2023 levels and remain above 10% through 2026. Specifically, we project the company to exit fiscal 2024 with FFO-to-debt at about 10%, and average in the 11% to 12% area through 2026. The improvement from prior years follows implementation of multiyear rate increases at subsidiary Tampa Electric Co. (TEC) and debt reductions following non-core asset sales and securitization of deferred fuel costs.

Despite the higher gross margins, we continue to project negative discretionary cash flows based on the company's robust capital spending plan. Emera plans to spend about C$20 billion in capital between 2025 through 2029, with 80% of the capital focused in Florida and two-thirds of the total capex allocated towards grid reliability and modernization, with the balance for renewable and technological investments. Although the capital spending is elevated, management expects to fund about half with internal cash flow generation and the remaining with equity and debt issuances. Management has also moderated its dividend growth to balance the capital plans, demonstrating its willingness to prudently manage the funding plans, such that leverage does not materially deviate from our base-case projections.

We assess Emera's financial risk profile using our medial volatility financial benchmarks, which reflect its lower-risk regulated utility operations and management of regulatory risk. These benchmarks are more relaxed than the benchmarks we use for a typical corporate issuer.

We continue to assess Emera's business risk profile as excellent. Our business risk assessment for Emera reflects the company's lower-risk regulated electric and natural gas utility operations, contributing more than 90% of consolidated cash flow and effective regulatory risk management. In addition, our business risk assessment also reflects that most of Emera's regulatory jurisdictions are generally credit supportive, allowing the utility operator to recover prudently incurred operating and capital costs in a timely manner. Further supporting our business risk assessment of Emera is the company's diverse regulated utility operations span in the U.S., Canada, and the Caribbean, serving more than 2.5 million customers in total and providing cash flow stability and regulatory and geographic diversity. Partially offsetting these factors are the company's exposure to physical risks such as storms and hurricanes and that it has some commodity risk exposure through its unregulated operations.

We affirmed our ICR on TEC at 'BBB+' but lowered the SACP to 'a-' from 'a'. Based on our forecast, we project TEC's credit measures to average in the 18%-19% area through 2026. The company had a constructive base rate outcome and will likely continue to recover costs through base case filings for outer years. However, given the increased capital spending plans at TEC, we do not expect credit measures to recover to levels witnessed during fiscals 2018 to 2022, when FFO to debt averaged about 23%. As such, we no longer view the financials to be at the stronger end of the significant financial risk profile which was previously underpinning the positive comparable ratings modifier (CRA). Coupled with our view of the excellent business risk in the middle range of the category, we are revising the CRA to neutral resulting in lowering of the SACP to 'a-' from 'a'. That said, the 'BBB+' ICR on Tampa is unchanged as it benefits from insulation measures that allow it to be rated one notch higher than the group credit profile of Emera.

Outlook

Emera Inc.

The stable outlook on Emera reflects our view that the initiatives taken by management during 2024 should enable it to sustain credit measures within our rating thresholds. Specifically, we believe the constructive base rate outcome at TEC, noncore asset sales, hybrid issuance, and securitization of deferred fuel costs should strengthen credit measures, with adjusted FFO-to-debt expected to improve in the 11%-12% range during 2025 and 2026.

Downside scenario

We could lower our ratings on Emera within the next 12 to 24 months if the company's business risk unexpectedly increases or consolidated financial measures deteriorate with FFO to debt trending below 10% with no prospect for improvement. This could happen if there are material adverse regulatory outcomes, a significant delay in the completion of capital projects, or if the company disproportionately funds its elevated capital spending with debt.

Upside scenario

Assuming no weakening in the company's business risk, we could raise ratings on Emera over the next 12- to 24 months if its financial measures improve with FFO to debt approaching 13% on a sustained basis, indicative of the higher end of the financial risk profile category.

Outlook - Tampa Electric Co.

The stable outlook on TEC reflects the stable outlook of its parent Emera. The outlook also reflects our view that with the recent base rate outcome and assumed equity issuances to fund the robust capital spending plans, TEC's FFO to debt will average in the 18%-19% area through 2026.

Downside scenario

We could lower our rating on TEC within the next 12 months if:

- We lower our rating on Emera; or
- The company's stand-alone credit profile weakens, such that TEC's FFO to debt deteriorates and is consistently below 12%.

Upside scenario

We could raise our rating on TEC during our outlook period if we raise the rating on Emera, which could happen if Emera's financial measures improve, with its FFO to debt approaching 13% on a sustained basis.

Outlook - Nova Scotia Power Inc.

The stable outlook on NSPI reflects the stable outlook of its parent Emera, as well as our expectation that NSPI's FFO to debt will average about 10%-11% through 2026. The improvement in credit measures from recent years is largely driven by the securitization of deferred fuel costs and corresponding debt reduction.

Downside scenario

We could lower the rating on NSPI within the next 12 to 24 months if:

- Financial measures deteriorate, with FFO to debt consistently below 10%; or
- We lower our rating on parent Emera.

Upside scenario

We could raise our rating on NSPI within our outlook period if:

- We raise our rating on Emera, or
- If the company's business risk strengthened while FFO to debt remained above 10%.

Company Description

Emera is a diversified electric and natural gas utility holding company that serves more than 2.5 million customers across the U.S. (Florida), Canada (Nova Scotia), and the Caribbean islands of Barbados, Bahamas, and St. Lucia.

Our Base-Case Scenario

Assumptions

- Implementation of the multi-year rate increases at TEC.
- No adverse weather beyond our base-case expectations. We assume deferred costs incurred in 2024 related to Hurricane Milton and Hurricane Helene will be recovered by the company in subsequent periods.
- Average annual capital spending of C$3.5 billion to C$4.0 billion in 2025 and 2026.
- Annual dividends of C$600 million in 2025 and 2026.
- Negative discretionary cash flow throughout our forecast period.
- Assumed sale proceeds for New Mexico gas in 2025.

Liquidity

We assess Emera's liquidity as adequate because we believe its sources will cover its uses by about 1.2x over the next 12 months and meet cash outflows even if EBITDA declines 10%. We believe the company's generally predictable regulatory framework provides manageable cash flow stability, even in times of economic stress, which supports our use of slightly lower thresholds to assess its liquidity.

In addition, we believe Emera can absorb high-impact, low-probability events with limited need for refinancing. This reflects our belief the company can significantly scale back its high capital spending projects during stressful periods, indicating a limited need for refinancing under such conditions. It also reflects the company's access to C$3.8 billion of various credit facilities maturing beyond the next 12 months. We also view the company's debt maturities over the next few years as manageable. Furthermore, our assessment reflects Emera's generally prudent risk management, sound relationships with its banks (which comprises a diversified banking group), and solid standing in the credit markets.

Overall, we believe the company could withstand adverse market circumstances during the next 12 months with sufficient liquidity to meet its obligations.

Principal liquidity sources

- Cash on hand of about C$240 million as of Sept. 30, 2024;
- Available credit facilities of C$2.8 billion; and
- Cash FFO of about C$2.8 billion.

Principal liquidity uses

- Debt maturities of C$870 million over the next 12 months. Including outstanding amounts under the commercial program as of Sept. 30, 2024;
- Capital spending of about C$3.3 billion; and
- Dividends of roughly C$575 million.

Covenants

Emera is required to maintain a debt to capital ratio of less than or equal to 70%. As on Sept 30,2024, Emera was in compliance with this covenant. The company has sufficient headroom in the next two years.

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Emera Inc. reflecting energy transition risks through its operations in electric generation that is primarily coal and natural gas. Relative to peers, greenhouse gas exposure to coal and fossil-fuel emitting forms of generation is considerable and exposes the company to potentially more stringent environmental regulations in both the U.S. and Canada. This exposure is somewhat mitigated by the 77% reduction in coal-based generation since 2005 and the company's position and growth strategy in renewable energy including wind and solar. Specifically, the company plans to spend $3.5B over the next five years on renewable integration, which includes initiatives related to solar, battery storage and renewable natural gas. The company’s social and governance factors are in line with that of industry peers.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Sept 30, 2024, Emera's consolidated capital structure consists of close to C$18.7 billion of long- and short-term debt, C$2.3 billion of junior subordinated notes, and C$1.4 billion of preferred stocks.

Analytical conclusions

- We rate the company's senior unsecured debt one notch below the issuer credit rating, reflecting structural subordination of the debt, meaning priority obligations at Emera's operating subsidiaries makes up about 65% of the total consolidated debt.
- Furthermore, we rate the preferred stock and junior subordinated notes two notches below our issuer credit rating on the company based on its deferable and subordination attributes, consistent with our criteria. The preferred stocks are also rated P-3 (high) on the Canada National Scale.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB/STABLE/--
Local currency issuer credit rating	BBB/STABLE/--
Business risk	1 - Excellent
Country risk	1 - Very Low Risk
Industry risk	1 - Very Low Risk
Competitive position	2 - Strong
Financial risk	5 - Aggressive
Cash flow/leverage	5 - Aggressive
Anchor	bbb
Diversification/portfolio effect	3 - Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb

Rating Component Scores - Tampa Electric Co.

Foreign currency issuer credit rating	BBB+/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2
Business risk	Excellent
Country risk	Very low
Industry risk	Very low
Competitive position	Excellent
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	a-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	a-
Group credit profile	bbb
Entity status within group	Insulated (-1 notch from SACP)

Rating Component Scores - Nova Scotia Power Inc.

Foreign currency issuer credit rating	BBB-/Stable/--
Local currency issuer credit rating	BBB-/Stable/--
Business risk	Strong
Country risk	Very low
Industry risk	Very low
Competitive position	Satisfactory
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb+
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bb+
Group credit profile	bbb
Entity status within group	Strategically Important (+1 notch from SACP)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook 2025: North America Regulated Utilities, Jan. 14, 2025
- Maritime Link Financing Trust's C$500 Million Senior Unsecured Bonds Due 2052 Rated 'AAA', Outlook Stable, Dec. 12, 2024
- Emera Inc.'s Announcement To Sell New Mexico Gas Co. Is Modestly Supportive Of Its Credit Quality, Aug. 6, 2024
- EUSHI Finance Inc. Rated 'BBB', Negative Outlook; Junior Subordinated Notes Rated 'BB+', June 10, 2024
- Emera Inc.'s Sale Of Its Stake In Labrador Island Link Is Modestly Supportive Of Its Credit Quality, May 30, 2024
- Emera Inc. And Subsidiaries Outlook Remains Negative On Weak Financial Performance; Ratings Affirmed, March 11, 2024

Ratings List

Ratings list		
Ratings Affirmed; Outlook Action		
	To	**From**
Emera Inc.		
EUSHI Finance Inc.		
TECO Energy Inc.		
Teco Finance Inc.		
Issuer Credit Rating	BBB/Stable/--	BBB/Negative/--
Nova Scotia Power Inc.		
Issuer Credit Rating	BBB-/Stable/--	BBB-/Negative/--
Tampa Electric Co.		
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
Ratings Affirmed		
Emera Inc.		
Subordinated	BB+	
Preferred Stock	BB+	
Preferred Stock	P-3(High)	
Preference Stock	BB+	
Preference Stock	P-3(High)	
Emera Inc.		
Emera US Finance L.P.		
Nova Scotia Power Inc.		

Ratings list	
Senior Unsecured	BBB-
EUSHI Finance Inc.	
Junior Subordinated	BB+
Maritime Link Financing Trust	
Senior Unsecured	AAA
Nova Scotia Power Inc.	
Commercial Paper	A-3(Cdn)
Tampa Electric Co.	
Senior Unsecured	BBB+
Commercial Paper	A-2

NON-CONFIDENTIAL

Request IR-2:

Refer to Exhibit N-1, NS Power's Application in M11990, page 8, lines 11-13, which states: "The use of Bloomberg data strengthens the Company's rate forecast by incorporating a larger sample size of short-term interest rate estimates from a more diverse group of financial institutions."

(a) Did the larger sample size of short-term interest rate estimates relied upon for this filing each come from separate financial institutions?

(b) How did NS Power determine that the larger sample size was sufficiently diverse for the stated purpose?

(c) How did NS Power make the selection from this larger sample size to preserve diversity?

(d) Please explain in detail how the list of banks used to obtain the short-term interest rate forecasts provided in Figure 1, on page 8 satisfy the requirement included in the "Exemptive Relief" order filed in M11563, in response to SBA IR-1, Attachment 6.

(e) Which of the banks included in the Board's quote on page 7, lines 27-32 are also included in the list of banks provided in response to d) above?

Response IR-2:

(a) Confirmed. The forecast interest rate represents consensus of analyst's opinions from 11 separate financial institutions.

(b) The Bloomberg forecast represents the consensus of analyst opinions from 11 reputable banks regarding the future interest rate applicable to 3-month Canadian Treasury Bills.

Increasing the number of analyst opinions and market perspectives regarding the future interest rate for Canadian Treasury bills reduces the reliance on any single analyst forecast therefore creating a more robust average.

(c) The Company does not make a selection or exclude any estimates from the consensus.

(d) The ability of a bank to issue the Company's commercial paper does not make the rate forecasts of their research analysts any less or more relevant to the Company's cost of borrowing. The rates do not reflect the cost of borrowing from a specific bank but rather reflect the estimated cost of Canadian Treasury bills. Therefore, whether the banks meet the requirements listed in the exemptive relief order is not relevant to the forecasting of the Company's WACC/AFUDC rate.

(e) The Bloomberg consensus includes the five Canadian banks listed in the Board's quote.

NON-CONFIDENTIAL

Request IR-3:

Refer to Exhibit N-1, NS Power's Application in M11990, Appendix A, pp. 1-6:

(a) Please provide an electronic copy of Appendix A in spreadsheet format with all cell formula intact.

(b) Does Appendix A in both the Application and the spreadsheet format to be provided in response to a) above show how NS Power's short-term interest rate forecast methodology has been updated to reflect the Term CORRA benchmark reference rate? If not, please provide an explanation.

(c) Please provide the source for the Term CORRA benchmark reference rate.

Response IR-3:

(a) Please refer to NSUARB IR-2 Partially Confidential Attachment 1.

(b) Yes, please refer to NSUARB IR-2 Partially Confidential Attachment 1, tab .5 Appendix C – STD Calc, row 5.

(c) The Company estimates the Term CORRA benchmark rate using the forecast 3-month Canadian Treasury Bill rates plus the spread between Term CORRA and Treasury Bill rates over a historical period of six months. The forecast 3-month Canadian Treasury Bill rates are sourced from Bloomberg, the historical Term CORRA rates are sourced from CanDeal, and historical Treasury bill rates are sourced from the Bank of Canada.