M11990

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: **THE PUBLIC UTILITIES ACT**

- and -

IN THE MATTER OF: **AN APPLICATION** by **NOVA SCOTIA POWER INCORPORATED** for approval of its WACC and AFDUC Rates Application for 2025

INFORMATION REQUESTS

To:

Nova Scotia Power Incorporated
Michael Willett
Regulatory Counsel
1223 Lower Water Street
Halifax, NS B3J 3S8
By email: Michael.Willett@nspower.ca

From:

Nova Scotia Utility and Review Board
Board Staff

Responses Due: **Thursday, January 30, 2025**

Copies: 1electronic copy (PDF searchable)

Contact Person:

Holly A. Chisholm
Advisor (Economics / Finance)
Nova Scotia Utility and Review Board
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Issued at Halifax, Nova Scotia, this 8th day of January, 2025.

Crystal Henwood

Crystal Henwood, Regulatory Affairs Officer/Clerk

Request IR-1:

Please provide NS Power's actual 2024 capital structure, specifically it's actual 2024 average short-term and long-term debt and actual 2024 equity.

Request IR-2:

Please provide Appendix A in excel format with cells intact and the worksheets unprotected.

Request IR-3:

How has the transition from Canadian Dollar Offered Rate (CDOR) to Canadian Overnight Repo Rate Average (CORRA) affected NS Power's financial position and forecasting processes, specifically in terms of:

a) The impact on short-term borrowing costs and updates to the interest rate forecasting methodology?
b) The steps taken to implement the change in financial systems and manage potential risks form CORRA rate fluctuations?
c) Compliance with regulatory requirements and public disclosures about the financial impact of the transition?

Request IR-4:

How does NS Power determine and manage the credit spread in its WACC calculation, specifically:

a) What specific methodology or approach did NS Power use to determine the credit spread included in the WACC calculation?
b) How does NS Power decide on the appropriate credit spread when calculating the cost of debt, and what factors influence this decision?
c) What data sources did NS Power rely on to determine the credit spread?
    i. Did the Company use external benchmarks, such as ratings from agencies like DBRS, or internal assessments?
d) How frequently is the credit spread reviewed to reflect changing market conditions?
e) Has NS Power made any adjustments to the credit spread in response to the transition from CDOR to CORRA? If so, how were these adjustments determined?
f) Has NS Power's credit spread been affected by its credit rating or changes in the market compared to its competitors?

g) How does NS Power's current credit rating influence the credit spread applied in your WACC calculation?

Request IR-5:

In reference to Figure 1 on page 8:

a) In 2022 and 2023, the actual short-term interest rate was significantly higher than both the Bloomberg and T-Bill forecasts. Is there any insight into why the forecasts were so far off from the actual rate?

b) Please provide the specific reports from which the Canadian bank (Scotiabank, BMO, RBC, CIBC, and TD Bank) data was collected to calculate the short-term interest rate estimates in Figure 1.

c) Please revise Figure 1 to disaggregate the column labelled Short-term Interest rate Forecate using 3-month T-Bills from 5 Canadian Banks for each year (insert 5 additional columns) and identify the Canadian Bank forecast used to arrive at each of the rates provided from 2022 to 2025.

d) Please list all known Canadian utilities that rely on the Bloomberg forecast to set their WACC/AFUDC.

e) Does the Bloomberg Outlook 1 month T-Bills incorporate forecasts by Scotiabank, BMO, RBC, CIBC and TD Bank?

Request IR-6:

a) Please provide a schedule detailing the projected opening and closing balances of construction work in progress for 2025, to which the proposed AFUDC rate is expected to be applied, along with an estimate of the total AFUDC that would be charged in 2025, assuming the requested WACC/AFUDC rate is approved.

b) What was NS Power's five quarter average equity ratio in 2024? Please provide the calculation in excel with cells intact.

c) What is NS Power's forecast five quarter average equity rate for 2025? Please provide the calculation in excel with cells intact.

d) Please provide a version of the schedule on page 1 of Appendix A showing the calculation of NS Power's actual 2024/2025 capital structure and weighted pre-tax cost rate, including the actual equity ratio (i.e. not the deemed equity ratio of 40.0%).

Request IR-7:

Page 8 of the application states that the Bloomberg data uses a larger sample size of short-term interest rates from a more diverse group of financial institutions.

a) Please specify which Bloomberg short term interest rate NS Power seeking to apply?

b) What is the sample size used in Bloomberg's short-term rate?

    i. How many financial institutions in the sample are Canadian?

        a. Of those Canadian financial institutions, how many does NS Power borrow from?

c) Please explain what is meant by "diverse" in reference to the financial institutions used in Bloomberg's short-term rate.

    i. Are these institutions constant year-over-year or do they change over time?

        a. If these institutions change over time, at what frequency?

        b. If these institutions change over time, how does NS Power plan to ensure that this rate is reflective of the borrowing market in which NS Power participates?

    ii. Please explain how the rates in the Bloomberg forecast are more accurate and/or more reflective of the environment in which NS Power borrows funds, compared to the currently approved methodology.

d) Please explain how using Bloomberg's rate improves the forecasted short-term interest rate, with specific reference to forecast accuracy.

Request IR-8:

Appendix A page 2 provides 4.13% as the projected interest rate for Total Short-Term debt.

a) Why is it not used in place of 5.19% in the Cost of Capital?

b) Please provide the source of the forecasted balances of short-term debt by month in excel format with cells intact.

Request IR-9:

In reference to Appendix A page 2, Capital Structure and Ratios, Long-Term

a) Why isn't a value provided in Colum (1) for Long-term Series F?

Request IR-10:

Please identify the financing that is represented in the $1.8 amortization on deferred financing charges in Appendix A page 4.

a) Why have the deferred financing charges increased from $1.4 million in the 2024 WACC/AFUC application to $1.8 million in this application.

Request IR-11:

Please explain why the long-term debt opening and closing balance uses the 2024 actual, but short-term debt opening and closing uses the projected 2025 amounts, as presented in Appendix A page 5.

Request IR-12:

Please show the calculation used to arrive at the current NSPI spread, as presented in Appendix A page 5.

a) Please explain why the NSPI spread is added to the Outlook T-Bills to Term CORRA Rates spread.
b) Please explain why the All in CP quarterly rates are not used to estimate the monthly interest expense on forecasted short-term debt.
    i. If they are, please provide a breakdown of the estimate showing the application of the quarterly All in CP Rates to short-term debt.