Blackburn Law Inc.

February 12, 2025

VIA EMAIL

Ms. Crystal Henwood
Regulatory Affairs Officer/Clerk
Nova Scotia Utility and Review Board
1601 Lower Water Street, 3rd Floor
Halifax NS B3J 3S3

Dear Ms. Henwood:

Re: M11990 - Nova Scotia Power Inc. (NSPI) - 2025 WACC and AFUDC Rates Application

The Small Business Advocate (SBA) has reviewed NSPI's application for approval of its 2025 WACC and AFUDC Rates, as well as NSPI's responses to Information Requests filed by several intervenors and the Board. Overall, the SBA is pleased to see that the 2025 WACC and AFUDC rate of 6.66% is slightly lower than the current approved 2024 rate of 6.72%. However, the SBA remains concerned that there is some risk going forward that the favorable factors contributing to this decline could reverse in the near future based on the credit rating agency reports NSPI provided in response to SBA IR-1 Attachments 1, 2 and 3.

In addition, in response to Board IR-4, NSPI explained that it had received a credit rating downgrade from DBRS and S&P Global in 2023 from R1-Low to R2-High, which required NSPI to obtain (sell) Commercial Paper (CP) to a different investor base that resulted in NSPI's credit spread remaining elevated in this WACC application[1]. CP is an advantageous source of funding due to its low applicable interest rates compared to short and long-term debt and thus it is important for large firms such as NSPI to maintain access to the CP market for day-to-day funding purposes.

Since NSPI has an $800 million credit facility that is used to backstop its $800 million CP program and partially fund its working capital and capex requirements[2], it is imperative that NSPI meet its metrics from these rating agencies. Meeting these metrics has an impact on the credit rating assigned to NSPI, which in turn could impact the company's continued access to the CP market.

[1] Exhibit N-4 - NSPI Response to Board IR-4 (f-g), p. 2, lines 13-27

[2] Exhibit N-5 – NSPI Response to SBA IR-1, Attachment 1, page 8 of 13, DBRS Rating Report Nova Scotia Power Inc.

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These key financial metrics are:

- debt cannot exceed 75% of total capital[3];
- the ratio of Funds from Operations (FFO) to debt cannot fall below 10%[4].

S&P has said that it may revise their negative outlook for NSPI if its stand-alone (i.e., not as part of Emera) FFO to debt ratio improves consistently above 12% absent an increase in business risk[5].

The SBA submits that NSPI should be required to report to the Board and stakeholders regularly, for example quarterly or at least more often than once per year, on these metrics, and report to the Board and stakeholders immediately if NSPI fails to meet to meet these metrics in any quarter. Contemporaneous reporting is required, the SBA submits, as failing to meet these metrics in any quarter could put NSPI's access to CP and NSPI's ability to carry out its operations and capital expenditure program in jeopardy. It is essential that the Board and stakeholders have a firm and up-to-date understanding of the situation so that it can be addressed in a timely manner to protect ratepayers.

All of which is respectfully submitted this 12th of February, 2025.

Yours truly,

Melissa P. MacAdam
Small Business Advocate

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[3] Exhibit N-5 – NSPI Response to SBA IR-1, Attachment 1, page 8 of 13, DBRS Rating Report Nova Scotia Power Inc.
[4] Exhibit N-5 – NSPI Response to SBA IR-1, Attachment 2, page 2 of 5, S&P Global Ratings Direct.
[5] Exhibit N-5 – NSPI Response to SBA IR-1, Attachment 2, page 2 of 5, S&P Global Ratings Direct.