Please refer to: Michael Murphy
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February 13, 2025

VIA EMAIL

Crystal Henwood
Regulatory Affairs Officer/Clerk of the Board
Nova Scotia Utility and Review Board
3rd Floor Summit Place
1601 Lower Water Street
Halifax NS B3J 3S3

Dear Ms. Henwood:

Re: M11990 – Nova Scotia Power Inc. - WACC and AFUDC Rates Application for 2025 - Submissions by Intervenors

Please accept the following submissions on behalf of the Consumer Advocate in respect of the above-noted matter.

The Consumer Advocate has reviewed Nova Scotia Power Inc.'s ("NS Power") application dated November 28, 2024, as well NS Power's responses to information requests filed with the Board.

In its Application, NS Power indicates that the requested approval for the 2025 WACC and AFUDC rates is consistent with previous Board approvals. Specifically, NS Power states:

> For the purpose of calculating WACC/AFUDC, the Board Order on the 2022 Application reiterated that NS Power was to use the principles set out in the 2016 WACC Decision, which directed NS Power to calculate WACC using the same debt/equity ratio that was used in determining the revenue requirement in a GRA. In the Board Order for M10431, the equity ratio was established at 40 percent. As such, NS Power may have an actual debt/equity ratio different from the ratio used in the calculation of WACC/AFUDC.[1]

In the result, NS Power's proposed rate of 6.66% is slightly lower than the currently approved 6.72%. The company estimates that this lower rate will result in a decrease of $0.1 million in deferred financing costs.[2]

On review of the Application, and NS Power's responses to the Information Requests filed by the Intervenors, we wish to provide the following comments for the Board's consideration:

[1] Application, p. 5, lines 14 through 19.
[2] NSP Response to CA IR-1(c).

1. Forecasting Methodology

NS Power indicates in its Application that its forecasting methodology is consistent with the methodology "used in the past General Rate Application (GRA) and WACC/AFUDC Application."[3]

However, in the Application, NS Power notes it is requesting approval to use the Bloomberg forecast methodology for the purposes of forecasting short-term debt rates in future debt rates.[4] Further, in response to Information Requests filed by the Industrial Group, NS Power appears to acknowledge that the methodology for calculating short term debt in the present Application differs from the prior approved methodology, in that NS Power uses the Bloomberg Outlook rate (instead of sourcing the rates from analysts as 5 Canadian Banks) and the Canadian Overnight Report Rate Average (CORRA) (instead of CDOR, as a result of CDOR's discontinuation).[5] NS Power further confirms that it estimates the credit spread for Commercial Paper by analyzing the credit spread of existing borrowings over the current benchmark rate.[6]

While the Consumer Advocate acknowledges NS Power's position that its approach is in alignment with the approved methodology, these apparent adjustments nevertheless raise concerns as to whether the methodology established in the 2016 WACC Decision remains applicable.

In addition, we note that the current forecasting methodology appears to calculate an average short-term debt rate of 5.19% when the quarterly rates range between 3.88% and 4.47%, as shown in Appendix A of the Application, reproduced below:

Nova Scotia Power Inc.
Details of Short-Term Debt Interest Calculation
Year Ended December 31st
Thousands of Dollars

2025 Budget

1	**NSPI CP Forecast, As of August 20, 2024**				
2			**2025**		
3	**Commercial Paper Rates**	**Q1/25**	**Q2/25**	**Q3/25**	**Q4/25**
4	Bloomberg Outlook T-Bills	3.64%	3.35%	3.14%	3.05%
5	Outlook T-Bills to Term CORRA Rates spread	0.32%	0.32%	0.32%	0.32%
6	**Estimated CP Rate**	**3.96%**	**3.67%**	**3.46%**	**3.37%**
7	Current NSPI spread	0.51%	0.51%	0.51%	0.51%
8					
9	**All In CP Rates**	**4.47%**	**4.18%**	**3.97%**	**3.88%**
10					
11	**Interest Rate Calculation per WACC methodology**				
12	Opening, Short-Term Debt				9,835
13	Ending, Short-Term Debt				165,932
14	**Average Short-Term Debt Balance, 2025**				**87,884**
15	**Interest on Short-Term Debt:**				**4,558**
16	**Short-Term Debt cost**				**5.19%**
17					

18		**Dec-24**	**Jan-25**	**Feb-25**	**Mar-25**	**Apr-25**	**May-25**	**Jun-25**	**Jul-25**	**Aug-25**	**Sep-25**	**Oct-25**	**Nov-25**	**Dec-25**	**Total**
19	**Forecasted Balances of Short-Term debt by month**	9,835	60,568	44,785	61,177	145,891	255,252	20,475	45,207	90,237	102,722	175,071	179,053	165,932	
20	**Interest Expense by month**		226	167	228	508	889	71	150	299	340	566	579	537	**4,558**
21															
22	1) Figures presented reflect whole numbers which may cause $1 Thousand rounding differences on some line items.														

This unusual result (the calculated short-term debt cost of 5.19% being substantially higher than any of the quarterly rates) appears to arise because NS Power forecasts its interest expense by month to estimate its annual interest expense of $4.558 million, and then divides that amount by the mid-year short-term debt balance ($87.884 million). Because NS Power has a very low opening short-term debt balance ($9.835 million) the mid-year number that is calculated is lower than the short-term

[3] Application, p. 5, lines 8-9.
[4] Application, p. 10, lines 9-10.
[5] NSP Response to IG IR-1.
[6] NSP Response to NSUARB IR-4 (a-c).

debt balance in 7 of the 12 months. In response to NSUARB IR #8 (a) NS Power notes that 4.13% represents the average of the quarterly commercial paper rates but the rate of 5.19% is calculated using total short-term debt expense divided by the average short-term debt and that this approach is consistent with the method previously approved by the Board.

This outcome would further support a potential review of the forecasting methodology established in the 2016 WACC Decision, and its continued application going forward (potentially in the next WACC/AFUDC Application or some other appropriate proceeding).

2. Timing of Debt Rate Forecasts

NS Power's debt rate forecasts were prepared in late August, 2024.[7] Since that time there have been three reductions to the Bank of Canada's overnight policy rate totalling 1.5%, including the 0.25% decrease implemented in January 2025.[8]

In response to an information request, NS Power noted that its forecast interest rates were retrieved in August 2024 and are in compliance with the NSUARB directive from M11563 which requires interest rates to be collected no more than four months from the date the applications are submitted. NS Power notes that using more recent forecast rates from January 15, 2025 would result in a pre-tax cost of short-term debt of 4.26 % and pre-tax cost of long-term debt of 5.08%. The overall WACC rate would decrease slightly to 6.64%.[9]

The Consumer Advocate acknowledges that NS Power's Application is compliant with the Board's prior decision requiring "rates to be collected no more than four months from the date the applications are submitted." The Consumer Advocate also acknowledges that the impact of using more recent forecasts may not be considered "material," given the Board's decision in the 2016 WACC Decision.

That being said, NS Power indicated in its Application that the new methodology for forecasting short-term debt rates results in an improved forecast process by reducing a number of manual steps previously required to estimate short-term interest rates. In this case, NS Power was able to provide a more recent forecast of short-term interest rates without much apparent difficulty. Given the availability of more recent information, the Consumer Advocate states it may be prudent to rely upon the most recent data in calculating WACC/AFUDC, and proceed with a rate of 6.64%.

3. Use of WACC/AFUDC Rate for Non-Capital Deferrals

The Application indicates that NS Power intends to continue to apply the WACC/AFUDC to its non-capital deferrals. The issue of whether the WACC is the proper interest rate for non-capital deferral accounts was reviewed in proceeding M11912 on NS Power's DSM cost recovery rider. In that proceeding, the Board indicated it would establish a generic proceeding to more thoroughly address and consider the proper interest rates arising from s. 64AB of the *Public Utilities Act* to deferral and

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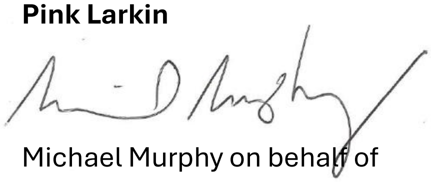
[7] See Appendix A, page 5 of 6 of the application.
[8] See Bank of Canada Policy Interest Rate website. Available: https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/. Accessed December 16, 2024.
[9] Response to CA-IR 2 (a) and (b).

variance accounts.[10] At this time, the Consumer Advocate confirms that it intends to participate in such a proceeding once initiated by the Board, and will be making further submissions on this point at the appropriate time.

The Consumer Advocate thanks the Board for the opportunity to provide these submissions.

Yours truly,
Pink Larkin



Michael Murphy on behalf of
David Roberts, Consumer Advocate

[10] Board Decision, M11921 – Application for 2025 DSM Cost Recovery Rider (DCRR)