2025 **M12412**

NOVA SCOTIA ENERGY BOARD

IN THE MATTER OF: **The More Access to Energy Act**

IN THE MATTER OF: **An Application by the Nova Scotia Independent Energy System Operator for approval of its proposed expenditure and revenue requirement for the test year ending March 31, 2026**

INFORMATION REQUESTS

To: The Industrial Group

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Issued at St. John's, Newfoundland, this 5th day of December 2025.

Request IR-1:

Reference: Exhibit N-10 Evidence of Doane Grant Thornton, page 7.

> ***"We reviewed the Application the context of GUP. Where practices differ from GUP or standard industry practice, we have noted those differences throughout."***

Please list and cross-reference the specific section of DGT's evidence where practices differ.

Response – IR-1:

GUP was considered as the basis for all recommendations throughout our report. However, the specific areas in which we provided recommendations to address differences from GUP are as follows:

<u>Test year budget</u>

Report Reference: Page 3, Figure 1, bullets 4 & 5 and Page 31, lines 11-30

- *"We have reviewed the supporting financial model provided by the NSIESO for mathematical accuracy and internal consistency and found no errors. However, it is important to note that the underlying detail in the financial model was not supported by additional documentation to confirm the accuracy of the hardcoded inputs. It is recommended that for future filings the NSIESO should at minimum include supporting evidence for all significant assumptions in their application; and,*

- *Similarly, throughout the Application the NSIESO stated that quotes and supporting documentation had been obtained for a number of proposed expense categories. When this support was requested throughout the information request ("IR") process, the NSIESO clarified that this was not the case and that the majority of current assumptions were not based on formal quotes or estimates but instead on generic market information and informal discussions, with emphasis placed on the fact that any variances from the forecast will be recorded and reconciled through the Net OM&A Deferral and Variance Account. Overall, this increases risk of inaccurate budgeting and excess use of the deferral account as no evidence of the market data or discussions relied upon have been provided at the time of this report. Therefore, while nothing specific has come to our attention that would deem the proposed test year budget unreasonable, it is recommended that the NSEB implement minimum filing requirements prior to submission of NSIESO's next application. The filing requirements for future applications should require the NSIESO to produce formal support for all significant budget items such as quotes, any referenced market information, correspondence from discussions surrounding estimates, etc. This will help to create transparency and confirm the prudence of the proposed revenue requirement calculation."*

The above recommendations were made to better align the NSIESO's test year budgeting practices with GUP, specifically the GUP guiding principle of transparency and supporting documentation, described as follows:

Report reference: Page 7, Figure 2

> *"Documentation received throughout the regulatory process forms the evidentiary basis for review and decision-making. Therefore, at the core of GUP lies clear and transparent data access and supporting information. Transparency is essential to ensure that stakeholders can fully understand and evaluate the rationale behind the proposed changes and allows for meaningful participation in the regulatory process. The format and manner of which information is provided can also impact on the level of clarity and transparency."*

<u>Deferral account – financial controls</u>

Report reference: Page 5, bullet 1 and Page 51, lines 31-39

- *"While the NSIESO has basic financial controls in place, they do not have established cost management controls for monitoring expenditures. While the Net OM&A Deferral and Variance Account will allow the NSIESO to defer any variances to future years, if cost overruns are not adequately managed, this could place an excessive burden on ratepayers. Therefore, creation of these specific cost management controls should be a priority. Specifically, cost categories which exceed budget should require a prudence review of all costs within that category to ensure the underlying cause of overrun is adequately understood. The NSIESO should work to define specific prudence review and approval requirements to ensure processes are defined to foster efficiency and transparency."*

This recommendation was made to better align the NSIESO's deferral account with GUP, specifically, the GUP guiding principle of cost-effectiveness, described as follows:

Report reference: Page 7, Figure 2

> *"GUP promotes sound financial management by encouraging utilities to make prudent investments and allocate resources efficiently. The goal is to balance service quality with affordability, ensuring that infrastructure investments provide long-term value to both the utility and its customers."*

<u>Deferral account – accounting policies</u>

Report reference: Page 5, bullet 2 and Page 51 (lines 31-39) to Page 52 (lines 1-3)

- *"At the time of this report, the NSIESO has not yet developed accounting policies. It is recommended that the NSIESO prioritize the development of these policies to ensure that specific accounting standards have been implemented prior to the recovery of Net Ongoing OM&A amounts in the April 2027 test year application. Ensuring applicable standards have been implemented and are properly followed from the beginning will ensure revenue and expenses are appropriately recognized, avoiding potential misrepresentation of periodic deferral amounts. Specifically, accounting policies should address capitalization criteria and thresholds, revenue recognition, as well as recognition policies for the deferral account. Consideration should be given to the accounting standards currently applied by NSPI to create reporting consistency between both entities."*

Having relevant and applicable accounting policies in place is a common component of standard practice across many industries. This recommendation was made to encourage the NSIESO to adopt applicable accounting policies commonly used among comparable organizations, better aligning them with GUP. These accounting policies are further described on Page 47 (lines 12-29) to Page 48 (lines 1-7).

<u>Deferral account – cost overruns & thresholds</u>

Report reference: Page 5, bullet 3 and Page 51 (lines 31-39) to Page 52 (lines 1-3)

- *"There is currently no identified threshold for overrun or limit on the amount of costs that can be recovered from ratepayers through the Net OM&A Deferral and Variance Account. While the purpose and technicalities of deferral accounts and mechanisms can differ depending on the specific organization, it is evident from our jurisdictional review that having thresholds, limits, and/or specific approval requirements is a key feature of many regulatory deferral tools. To create accountability and minimize excess and uncontrolled cost overruns, it is recommended that the NSIESO work to develop more clearly defined thresholds, to limit amounts recoverable from ratepayers."*

This recommendation was made to better align the NSIESO's deferral account with GUP, specifically, the GUP guiding principle of cost-effectiveness, described as follows:

Report reference: Page 7, Figure 2

> *"GUP promotes sound financial management by encouraging utilities to make prudent investments and allocate resources efficiently. The goal is to balance service quality with affordability, ensuring that infrastructure investments provide long-term value to both the utility and its customers."*

In addition, this recommendation aims to better align the NSIESO with other comparable organizations which commonly implement such thresholds, limits, and/or specific approval requirements, creating added consistency with GUP. The limitations and thresholds implemented by comparable organizations within the industry are further discussed in the following sections of our report:

- *Page 45, Section 7.3.1.1.2*
- *Page 46-47, Section 7.3.1.2.2*

<u>Deferral account – guidelines</u>

Report reference: Page 5, bullet 4 and Page 52, lines 12-15

- *"Finally, as demonstrated by jurisdictional research, it is important to have specific guidelines surrounding regulatory approval, scope, eligibility requirements, and time limits for deferral accounts. Therefore, it is recommended that specific account scoping details be defined and communicated for review at the end of the first fiscal period."*

This recommendation was made to better align the NSIESO with GUP and industry findings from common jurisdictional research. Specifically, GUP regarding this matter is further described in our report as follows:

Report reference: Page 48, lines 9-24

> *In addition to information from other comparable organizations, we have also considered research and data from the National Association of Regulatory Utility Commissioners ("NARUC") in understanding standard practices regarding the use of regulatory deferral accounts and mechanisms. NARUC emphasizes the following practices:*
>
> - ***Regulatory approval** – The Guidelines on Best Practices in Regulatory Accounting, prepared by NARUC, emphasizes that deferral mechanisms must be authorized by an independent regulator and should be based on regulatory need.*
> - ***Defined scope** – NARUC notes that each deferral account should have a defined objective and cost eligibility criteria**.***
> - ***Time limits** – NARUC also suggests that deferral accounts be time-limited and subject to reauthorization to prevent indefinite cost accumulation.*

Request IR-2:

Reference: Page 31, lines 16-30.

Preamble: In this section, DGT outlines the NSIESO's representation in the Application that supporting documentation and quotes had been obtained but in fact, certain expenses were based on generic market information and informal discussions.

(a) Does DGT have an estimate of the potential variance for these expenses? Please provide, by expense or expense category.

(b) In the absence of evidentiary support, on what basis does DGT conclude the expenses are "not unreasonable"?

Response – IR-2:

(a) Underlying third-party supporting evidence was not provided. It is unreasonable to predict the potential variances in the first year of operations.

(b) We relied on our industry experience with other utility-based organizations and non-profit organizations across North America with similar cost categories. We pulled on this industry expertise to conclude that there were no missing cost categories and assumptions appear to be based on reasonable rationale. In addition, we utilized publicly available operating expense detail for comparable organizations, as outlined in Section 4.3.1.3 of our report, to gauge the reasonableness of the NSIESO's proposed operating expenses on a total basis.

Request IR-3:

Reference: Page 31, lines 25-30.

Preamble: DGT recommends implementation of minimum filing requirements including formal evidentiary support for all "significant" budget items.

(a) How does DGT define "significant"? Does this refer to the nature of the expense or the magnitude? Please explain.

(b) Apart from evidentiary support for budget requirements, what other elements does DGT recommend as part of minimum filing requirements for the NSIESO's next application? Please be specific.

(c) Is DGT familiar with standardized filing requirements in other jurisdictions with an Independent Electricity System Operator? If so, please provide a summary of the key areas, identifying any jurisdiction-specific elements that may not be appropriate in Nova Scotia, and links to those jurisdictional requirements.

Response – IR-3:

(a) What we consider "significant" is determined on a situational basis and can be dependent on both the nature and numerical magnitude of the expense. There is no universal numeric threshold for significance, and it is instead based on professional judgement and both quantitative and qualitative factors. While this engagement is not a financial statement audit, referring to CAS 230 illustrates how CPAs consider significance. Per CAS 230, "the significance of a matter requires an objective analysis of the facts and circumstances". Examples of components to consider when identifying significant expenses, include but are not limited to:

(i) **The magnitude relative to total expenses** - An expense category representing a large percentage of total operating costs would be considered significant.

(ii) **Volatility and variability** – Expense categories that are highly variable would be considered to have a higher degree of significance.

(iii) **Impact on end user decision-making** – Expenses that frequently impact decisions would have a higher significance. For example, expenses tied to reliability or safety may play a more significant role in the decision-making of utilities and ISOs.

(b) At a minimum, filing requirements for future applications should include but are not limited to:

(i) Actual financial results for the current year and historical period (if applicable);

(ii) Formal support for budget items (quotes, market information, correspondence from discussions surrounding estimates, etc.);

(iii) Evidence of any noted Stakeholder or Indigenous engagement and details of collaboration, including dates, parties consulted, key takeaways, and copies of correspondence; and,

(iv) Detailed support for any future deferral amounts, including the purpose, description, and justification for any cost overruns.

(c) Doane Grant Thornton is familiar with standard filing requirements from other Canadian jurisdictions. Minimum filing requirements typically differ depending on the specific application. However, key areas covered by standard filing requirements typically include, but are not limited to:

(i) Historical, year-to-date, and test year actuals (when applicable);

(ii) Variance analysis and descriptions, where applicable;

(iii) Sufficient evidence to support the reasonableness of the proposal; and,

(iv) Adherence to any relevant rules or reliability standards. For example, the AESO's applications must align with the current AESO ISO Rules (ISO rules » AESO) and Alberta Reliability Standards (Alberta Reliability Standards » AESO) while the IESO and MISO's applications must be compliant with North American Electric Reliability Corporation ("NERC") Standards.

Request IR-4:

Reference: Page 48.

(a) Does DGT have a recommendation on which accounting policies should be adopted by the NSIESO, i.e., US GAAP or IFRS? Is it relevant which policies are applied by NSPI? i.e., is there a benefit of consistency?

(b) As a practical matter, does it matter which is applied?

Response – IR-4:

(a) US GAAP and IFRS are both appropriate accounting policies and have been applied by other ISOs across Canada. Ultimately, the choice in accounting framework is the decision of management in consultation with their selected auditors. We acknowledge that US GAAP is currently applied by Nova Scotia Power Inc. and the NSIESO may desire a level of consistency. Consistency would offer the following benefits:

(i) **Comparability** - Following a consistent set of accounting standards would allow regulators, stakeholders, and market participants to more easily compare results which is useful for cost allocation and benchmarking. In addition, comparability of future verses historical results will help to create consistency going forward.

(ii) **Alignment** – Aligning accounting policies will minimize the opportunity for potential dispute or misunderstanding of cost treatment.

(iii) **Transparency** – Consistent accounting policies will improve the clarity for market participants, increasing transparency and better aligning with GUP guiding principles.

(iv) **Simplification** – Given the NSPI and the NSIESO will both report to the NSEB, the added consistency will make for a more seamless application and approval process. Given there will be transitions with resulting adjustments between NSPI and the NSIESO in its initial years, having consistent accounting policies will minimize risk of error and make for a more seamless transition overall.

(b) Both US GAAP and IFRS are both appropriate accounting policies and have been applied by other ISOs across Canada. While the added consistency of US GAAP would align with the local regulatory environment and utility in Nova Scotia, it does not matter which is applied from a technical perspective. Ultimately, this should be decided upon by management in consultation with their selected external auditors.

Request IR-5:

Reference: Page 49, Figure 32 – NSIESO's proposed deferral sub-accounts and Page 50.

Preamble: In summarizing NSEB IR-10, DGT paraphrases the NSIESO's Response that the costs were bifurcated into multiple accounts to enhance tracking and transparency. And additionally, the deferral sub-account was created to comply with the rule related to retroactive ratemaking and make it subject to a prudence review.

(a) Does DGT agree with the reasoning to bifurcate costs into multiple accounts? Is this the most efficient and transparent or would a single account be simpler and yield the same transparency?

(b) Does DGT have an opinion on the need for a sub-account having regard to the stated reasons? Can these objectives be achieved in any other way?

(c) Is it DGT's understanding that the proposed Net OM&A Deferral and Variance Account ("**DVA**") is time-limited or is it an ongoing DVA? Please explain.

Response – IR-5:

(a) As described in Exhibit A-1, Page 10 of 36 of the NSIESO's Application and as outlined on Page 49, Figure 32 of our report, these are sub-accounts within the one deferral account as opposed to entirely individual accounts. Therefore, the overall account total will be presented consistently with how it would appear if a single account with no sub-accounts were to be used. We see no specific issue with bifurcating costs into sub-accounts for tracking purposes. However, it ultimately will have no impact on the overall efficiency or transparency for readers of the financial statements.

(b) The use of sub-accounts will have no impact on the end result to the reader. So long as the approved forecast amounts and any actual expense activity are appropriately monitored and recorded, the resulting difference will track any variance amount in the deferral account. Therefore, the use of sub-accounts for tracking purposes is ultimately based upon management preference.

(c) Based upon the information available, it is our understanding that the Net OM&A Deferral and Variance Deferral Account proposed by the NSIESO is not time-limited.

Request IR-6:

Reference: Page 51, lines 15-23.

Preamble: DGT states that all cost categories that exceed budget should be subject to a prudence review of all costs within that category.

(a) Considering this recommendation, should the reference to "net" be removed from the proposed DVR?

(b) How and in what process does DGT contemplate that a prudence review of OM&A would occur?

Response – IR-6:

(a) Assuming the term "DVR" is in reference to the Net OM&A Variance Deferral Account, we do not believe the removal of "net" is necessary because the account itself is still responsible for tracking the net variance between the forecast and actual expenditures.

The terms and requirements for prudence reviews are not directly related to the intended purpose of the account itself.

(b) The Nova Scotia Energy Board (previously the Nova Scotia Utility and Review Board) has adopted the following definition of prudence as set out in a decision of the Illinois Commerce Commission:

"prudence is that standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made. Hindsight is not applied in assessing prudence…A utility's decision is prudent if it was within the range of decisions reasonable persons might have made…The prudence standard recognizes that reasonable persons can have honest differences of opinion without one or the other necessarily being imprudent". [1]

We would expect a prudence review to be triggered once costs in a specific category exceed the forecasted amount by a pre-determined amount or percentage. The prudence review process for a utility or ISO would typically involve the following steps:

- The utility or ISO files an application containing detailed cost information and supporting evidence.
- For any areas under review, regulators will request additional data, documentation, and interrogatories to better understand the rationale behind the costs.
- Costs are then compared to industry benchmarks and historical trends, if available.
- When necessary, intervenors may review and challenge the evidence through written interrogatories or testimony.
- Ultimately, the regulator decides whether costs are fully allowed, partially allowed, or disallowed.

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[1] Terms-of-Reference-2015-02-27.pdf

Request IR-7:

Reference: **Page 52, lines 4-11.**

Preamble: **DGT states there is currently no identified threshold for overrun or limit on the amount of costs in the DVA and that thresholds, limits, and/or specific approval requirements are key features of many regulatory deferral tools to create accountability and minimize excess and uncontrolled cost overruns.**

(a) Does DGT have a recommendation on a limit? Or methodology to establish such a limit or threshold on the DVA?

(b) Is it DGT's understanding that the establishment of a deferral account and recovery from ratepayers require two separate regulatory approvals? If not, please explain.

Response – IR-7:

(a) An appropriate starting point would be to consider implementing approval requirements for cost categories which exceed the approved forecasted amount by 10% or more. This is aligned with the threshold applied to the Alberta Electric System Operator's deferral account and is a standard tolerance band within project management standards across various industries. However, it is important to exercise judgement in the initial years given the lack of historical data.

(b) Yes, it is our understanding that the establishment of a deferral account and recovery from ratepayers require two separate regulatory approvals.