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Delivered by Email

Crystal Henwood
Regulatory Affairs Officer/Clerk
Nova Scotia Energy Board
3rd Floor, 1601 Lower Water Street
PO Box 1692, Unit "M"
Halifax NS B3J 3S3

Dear Ms. Henwood:

Re: M12412 – IESO NS – Proposed expenditure and revenue requirements for test year ending March 31, 2026

These submissions are filed on behalf of the Industrial Group.

The recently established IESO Nova Scotia ("**IESO-NS**") has filed its first application to the Board in relation to its initial Revenue Requirement ("**RR**") for the test period ending March 31, 2026. It seeks approval for a total RR of $6.75 million, with $5.3 million to be recovered from ratepayers and the remainder to be funded through provincial government grants allocated for the one-time transition to the new System Operator.

In addition to the RR, the NSIESO seeks approval to establish a Net Operating, Maintenance and Administration ("**OM&A**") Deferral and Variance Account (the "**Deferral Account**") comprising three sub-accounts: (1) a deferral account for approved forecast net ongoing OM&A costs (net of provincial funding), (2) a variance account recording over- or under-spending against the forecast, and (3) an actual net OM&A account reflecting the true-up for regulatory recovery.

The Industrial Group does not oppose the IESO-NS's request for an initial RR, as outlined in the application, nor the establishment of the Deferral Account for the purposes of the initial test period. However, appropriate restrictions and clear parameters must be established in relation to the Deferral Account, including the protective measures recommended by Board Counsel consultant, Doane Grant Thornton ("**DGT**").

The Industrial Group offers comments with respect to four aspects of this application:

1. Improving future RR applications through minimum filing requirements;
2. Setting appropriate Deferral Account parameters;
3. Establishing an Integrated Resource Planning (**IRP**) process schedule; and
4. Ongoing reporting of the transition status.

Future RR Application – Costing Support and Minimum Filing Requirements

The Industrial Group does not oppose the specific amount applied for by IESO-NS for the test period ending March 31, 2026. It is recognized that the IESO-NS is a newly developed entity, and there are inherent limitations with respect to how the OM&A expense estimates have been developed. Nevertheless, on a go-forward basis, sufficient evidentiary support for each category of expenses ought to be provided by IESO-NS.

DGT has confirmed that the approach employed by IESO-NS to develop the proposed RR appears reasonable and aligned with standard regulatory practice.[1] However, throughout the course of this proceeding, it became apparent that the support for a number of the proposed expense category figures were not supported by formal quotes or specific estimates; rather IESO-NS relied upon generic market data. Future cost estimates should be grounded in actual costs or quotes or specific data obtained through diligent research provided by IESO-NS.

Recognizing that this is the first RR that IESO-NS has developed and filed, along with the symmetrical nature of the Deferral Account proposed, the risk arising from the limited evidence supporting the forecasted OM&A costs is generally mitigated. Regardless, the Industrial Group supports DGT's recommendations for improving future RR applications.

DGT recommended that the Board establish minimum filing requirements prior to submission of IESO-NS's next RR application, along with formal evidentiary support for all “significant”[2] budget items such as quotes, any market information specifically relied on, correspondence surrounding estimates, and the market data supporting the salaries of employees.[3] As outlined by DGT in response to the Industrial Group’s Information Request 3 (b), the filing requirements should include, at a minimum:

> *(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.*[4]

In its rebuttal, IESO-NS appears generally supportive of the proposed improvements to future filings and recognized the need to develop financial controls and accounting policies, stating these

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1 N-10, Evidence of Doane Grant Thornton, page 11.

2 As defined by DGT at N-12, DGT (IG) RIR – 3(a).

3 N-10, Evidence of Doane Grant Thornton, pages 3 and 4.

4 N-12, DGT (IG) RIR- 3(b).

financial frameworks will be formally established in 2026. The IESO-NS did not address nor specifically commit to adhering to minimum filing requirements in future applications.[5]

The Industrial Group supports the minimum filing requirements recommended by DGT, including the minimum evidentiary support for any future RR forecasts. Directing inclusion of this material as part of the filing provides greater transparency and allows interested parties to test the evidentiary basis as part of the IR process, rather than IR being a disclosure exercise.

Deferral Account

The Industrial Group does not oppose establishment of a Deferral Account given that IESO-NS has been newly created and its responsibilities have not yet stabilized. However, clear parameters and limits to a Deferral Account are recommended to protect ratepayers and promote efficiency.

DGT has made several recommendations to limit the scope of the proposed Deferral Account and improve cost management controls. The recommendations include implementing financial controls and prudence review standards, establishing accounting policies, defining the thresholds for appropriate deferrals, and determining specific guidelines for scope and reauthorization of the Deferral Account.[6]

DGT specifically recommends that the Deferral Account operate within a defined scope with specified eligibility criteria and time limits to avoid indefinite accumulation of costs.[7]

The Deferral Account as approved ought to have specific triggers for review. A threshold of 10% overrun per cost category is recommended by DGT and is analogous to other ISOs such as the Alberta Electric System Operator.[8] The use of a threshold for overruns enhances accountability and protects ratepayers as it would trigger a filing, supported by benchmarking and justification. IESO-NS acknowledged in its Rebuttal Evidence that while its nascent operational state warrants judgment and flexibility, the establishment of clear thresholds remains important.[9] The IESO-NS disagreed with 10% being the threshold, noting that AESO is a mature steady-state entity whereas NSIESO is in an early stage of development so it is too early to set a fixed benchmark. It asked that if a threshold is set, “the NSEB provide IESO Nova Scotia the opportunity to consider and provide comments on the appropriate threshold in future”.[10]

Based on the evidence filed in this proceeding, and in the absence of any recommended alternative, the 10% threshold appears reasonable and consistent with industry standards. If the Deferral Account is proposed to continue in the next fiscal year, the Industrial Group is agreeable to engage with the IESO-NS and other stakeholders to consider whether a different threshold for future years is more appropriate for the IESO-NS.

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[5] N-13, NSIESO Rebuttal Evidence, page 2.

[6] N-10, Evidence of Doane Grant Thornton, page 5.

[7] N-10, Evidence of Doane Grant Thornton, page 48.

[8] N-10, Evidence of Doane Grant Thornton, pages 46-47.

[9] N-13, Rebuttal Evidence - NSIESO, page 32.

[10] N-13, NSIESO Rebuttal Evidence, page 3.

In addition to a time limit, and cost-overrun threshold, DGT also recommends that any cost category exceeding its approved budget should trigger a prudence review to assess the overrun and underlying causes, with the standard prudence analysis applying only to incremental costs above approved forecasts.[11] The Industrial Group submits that this protective mechanism is appropriate and necessary to protect ratepayers from imprudent cost overruns.

In its Rebuttal Evidence, IESO-NS generally agreed with the suggested "establishment of over-expenditure thresholds and prudency review of expenditures above a threshold in the future, as IESO-NS works to establish its future steady-state."[12] It suggests that any future prudency reviews tied to over-expenditures be incorporated into its annual revenue requirement and fees application. Given the potential magnitude of the variance and regulatory costs for a standalone proceeding, the Industrial Group agrees this seems to be a reasonable approach currently.

DGT further recommends that IESO-NS prioritize the development of accounting policies to ensure recognition and reporting of revenues, expenses, deferral accounts, and capitalization criteria are aligned with regulatory and industry standards. DGT suggests that with NSPI's current accounting framework (US GAAP)[13] would maintain consistency between entities.[14] IESO-NS has indicated that it is considering the most appropriate framework in consultation with an external auditor.[15] The Industrial Group recommends that as part of IESO-NS's next RR application it provide evidence of the auditing support to rationalize its proposed accounting framework.

Overall, the Industrial Group supports the establishment of Deferral Account for the initial test period ending March 31, 2026, with the noted parameters recommended by DGT, and requests that the Board direct the IESO-NS to engage with stakeholders to establish any different parameters to the Deferral Account on a go-forward basis, if it is proposed to be extended in the next RR application.

Each of the recommendations proposed by DGT are reasonable, well supported, and in the best interest of ratepayers.

Integrated Resource Planning (IRP) Process

Synapse Energy Economics, retained as Board Counsel's consultant, has provided evidence recommending several areas for consideration in IESO-NS's IRP process. Synapse encouraged an expeditious approach to IESO-NS's first IRP exercise considering the criticality of the IRP informing near-term procurement decisions along with future investment planning.[16]

IESO-NS confirmed in its Rebuttal Evidence that the initial phase of the IRP process commenced with the posting of an RFP in October 2025, the retention of Dunsky Energy + Climate, and that the initial phases of the IRP development are underway.[17] While this initial step is encouraging,

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11 N-10, Evidence of Doane Grant Thornton, page 45; and N-12, DGT(IG) RIR- 6(b).

12 N-13, NSIESO Rebuttal Evidence, page 3.

13 As confirmed by DGT at N-12, DGT (IG) RIR-4(a).

14 N-10, Evidence of Doane Grant Thornton, page 47.

15 N-13, NSIESO Rebuttal Evidence, page 3.

16 N-11, Synapse Evidence, pages 5 and 10.

17 N-13, NSIESO Rebuttal Evidence, page 4.

no substantive engagement involving interested parties has taken place and the specific timeline for completion of the IRP has not yet been made public.

The Industrial Group recognizes that an IRP consultative process can be lengthy and strongly recommends IESO-NS promptly develop and publish a detailed schedule for the IRP process, including planned technical sessions with interested parties and targeted dates for the dissemination of background reports and draft IRP assumptions and scenarios. Such direction will facilitate effective planning on the part of all participants and contribute to meaningful stakeholder engagement throughout 2026. The Industrial recommends that the schedule be communicated by March 1st, at the latest, with a target for completion dependent on the planned steps.

Transition Status and Reporting

IESO-NS has outlined a phased transition approach to taking over the system operations from NSPI. Phase 1 involving system planning, grid integration, and procurement is expected to be completed by December 1, 2025, and Phase 2 involving real-time dispatch and full control of the grid planned for Q2 2027.[18] IESO-NS is in the early stages of organizational development, scaling up executive, administrative, and operational functions.

The Industrial Group supports the IESO-NS's proposed monthly transition status reports to the Board.[19] In addition to the proposed reporting on people and roles, facilities and technology, and compliance, the Industrial Group submits that this reporting should specifically address:

- Updates on Phase 1 and Phase 2 transition milestones;
- Any variance from the original schedule, with reasons, risks and mitigation efforts made;
- Collaboration outcomes between NSIESO and NSPI;
- Updates on specific costs incurred, and expected to be recovered through rates; and
- Any material changes impacting operations, costs, or schedule.

Conclusion

The Industrial Group respectfully requests the following Order and directions to IESO-NS:

1. Approve the creation of a time-limited net OM&A Deferral Account covering the period ending March 31, 2026, and adopt the DGT recommendations regarding a 10% cost overrun threshold and prudence review standard, to be reported on in the next RR application.
2. As part of future RR applications, include the following at minimum:

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

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[18] N-01(i), NSIESO Application Exhibits, page 7-8; N-06 NSIESO (IG) IR-1.

[19] N-07 NSIESO (NSEB) RIR-1.

(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 including providing formal evidentiary support for all significant budget items.

3. As part of its next RR application, file copies of IESO-NS financial controls and accounting policies, including any report or recommendations arising from its consultation with external auditors regarding the choice of IFRS or US GAAP.

4. File monthly public reporting on transition progress and collaboration with NSPI throughout 2026.

5. By March 1, 2026, develop and publish a detailed IRP schedule, including a target date for completion of the final report.

Thank you for the opportunity to submit these comments.

Yours truly,

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Brianne E. Rudderham

NGR/BER/lmc

cc Intervenors