January 29, 2026

Ms. Crystal Henwood
Regulatory Affairs Officer/Clerk
Nova Scotia Utility and Review Board
1601 Lower Water Street, 3rd Floor
P.O. Box 1692, Unit "M"
Halifax, NS B3J 3S3

Re: M12412 - IESO Nova Scotia 2025/2026 Revenue Requirement Application – Reply Submission

Dear Ms. Henwood:

On January 15, 2026, submissions regarding the above noted proceeding were submitted to the Nova Scotia Energy Board (NSEB, Board) by the Consumer Advocate (CA), Small Business Advocate (SBA), and the Industrial Group (IG). Pursuant to the NSEB's M12412 Hearing Order of August 6, 2025, the Independent Energy System Operator of Nova Scotia's (IESO Nova Scotia) reply is provided herein.

Importantly, the CA, SBA and IG did not object to IESO Nova Scotia's request for Board approval of its 2025/2026 revenue requirement budget of approximately $5.31 million in Operational, Maintenance & Administration (OM&A) costs, nor the IESO Nova Scotia's request for Board approval of its proposed Net OM&A Deferral and Variance Account.

The IG provided as follows:

> 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.[1]

The CA provided as follows:

> The Consumer Advocate is not opposed to the request from IESO-NS for its revenue requirement or for the establishment of a deferral account.[2]

[1] Industrial Group Submission, re: M12412 – IESO NS – Proposed expenditure and revenue requirements for test year ending March 31, 2026, January 15, 2026, p.1.
[2] Consumer Advocate Submission, re: M12412 – IESO-NS - Proposed Expenditure and Revenue Requirement, January 15, 2026, p.1.

The SBA likewise did not express any objections to the approval of IESO Nova Scotia's budgeted 2025/2026 revenue requirement nor the Net OM&A Deferral and Variance Account.

Notwithstanding, the CA, SBA and IG provided comments and corresponding recommendations falling under the following broad categories:

1. Cost Control Mechanisms
2. Future Costs & Recovery
3. Evidentiary Requirements

IESO Nova Scotia appreciates the comments from the intervenors in this proceeding, and notes that it is generally amenable to most of their recommendations. Intervenors' comments and recommendations are addressed in each category in their corresponding sections below.

Cost Control Mechanisms

The CA, SBA and IG all provided similar comments with respect to cost control mechanisms and the related conclusions and recommendations of Doane Grant Thornton's (DGT) submission of October 28, 2025. The SBA also recommended implementation of governance controls.[3] As noted in IESO Nova Scotia's rebuttal comments of December 22, 2025, IESO Nova Scotia is amenable to many of DGT's comments and recommendations, noting that many of the corresponding items are in active development, and that "IESO Nova Scotia will establish supporting financial controls and accounting policies in 2026".[4] Accordingly, IESO Nova Scotia is supportive of intervenor comments and recommendations regarding the same, consistent with its comments in its rebuttal submission.

In the meantime, it is important to note that IESO Nova Scotia has had in place certain cost control mechanisms since mid-2025, including procurement guidelines and various financial controls. Financial controls in place include budgeting, invoice payment approvals, frequent leadership review of payables, bank reconciliations, and more. Additional financial control mechanisms such as the ones recommended by DGT and intervenors are expected to be in place in Q1 2026. With respect to governance controls, IESO Nova Scotia's 2025/2026 and 2025/2027 Revenue Requirement applications describe governance established through its Board of Directors' related work and progress to date. IESO Nova Scotia continues to make steady

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[3] Small Business Advocate Submission, re: M12412 - Nova Scotia Independent Energy System Operator Application for Approval of its Proposed Expenditure and Revenue Requirement for the Test Year ending March 31, 2026, January 15, 2026, p.5.

[4] IESO Nova Scotia Rebuttal Evidence, Re: M12412 — IESO Nova Scotia 2025/2026 Revenue Requirement Application, December 22, 2025, p.2.

progress on the execution of its mandate through adoption and transition of its various responsibilities from Nova Scotia Power.

With respect specifically to the Net OM&A Deferral and Variance Account, the IG provided the following recommendation:

> 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.[5]

The CA provided the following comment and recommendation:

> IESO-NS should put specific guidelines in place for deferral accounts that incorporate regulatory requirements and principles.[6]

IESO Nova Scotia notes that it has proposed the continued use of a deferral and variance mechanism modeled after the Net OM&A Deferral and Variance account, renamed the Net Revenue Requirement Deferral and Variance Mechanism, in its 2026/2027 Revenue Requirement Application submitted to the NSEB on January 20, 2026. The proposed Net Revenue Requirement Deferral and Variance Mechanism will track revenue requirement budgets against forecast in perpetuity, and true-up any over or under collections of revenue requirement through adjusted fees.

IESO Nova Scotia agrees that cost overruns, which are proposed to be tracked via the Net Revenue Requirement Deferral and Variance Mechanism, should be subject to prudence reviews once those costs past a certain threshold. However, as noted in its rebuttal submission, IESO Nova Scotia reiterates its caution of establishing a 10 percent threshold at this time:

> IESO Nova Scotia is generally supportive of the establishment of over-expenditure thresholds and prudency review of expenditures above a threshold in the future, as the IESO Nova Scotia works to establish its future steady state. IESO Nova Scotia believes that such thresholds could balance providing operational flexibility, reflective of its statutory mandate, with accountability for over-expenditures. With respect specifically to comparison to the AESO and its 10 percent threshold, IESO Nova Scotia notes that the AESO is a much more mature organization presumably under steady-state and relatively predictable operation, and so adopting a comparable over-expenditure threshold may not be appropriate. Accordingly, IESO

[5] Industrial Group Submission, re: M12412 – IESO NS – Proposed expenditure and revenue requirements for test year ending March 31, 2026, January 15, 2026, p.5.
[6] Consumer Advocate Submission, re: M12412 – IESO-NS - Proposed Expenditure and Revenue Requirement, January 15, 2026, p.2.

> Nova Scotia agrees with DGT that "it is important to exercise judgement in the initial years given the lack of historical data" and "the NSIESO work to develop more clearly defined thresholds". In the event the NSEB adopts DGT's recommendations, IESO Nova Scotia requests that the NSEB provide IESO Nova Scotia the opportunity to consider and provide comments on the appropriate threshold in future. Additionally, if or when the Board approves such future thresholds, IESO Nova Scotia may suggest that such related prudency reviews of expenditures take place as part of IESO Nova Scotia's annual revenue requirement and fees applications.[7]

IESO Nova Scotia's position regarding expenditure thresholds remains the same, especially in light of the additional cost categories that will be incurred in the near future, namely capital and energy resource procurement related costs as noted in the 2026/2027 Revenue Requirement Application, which may introduce material variations in overall revenue requirement amounts. Given this, insofar as the NSEB is considering directing IESO Nova Scotia adopt a cost overrun threshold as described to date in this proceeding, IESO Nova Scotia requests the Board consider a threshold in the 30 to 50 percent range, which reflects the fluid state of IESO Nova Scotia's operations and corresponding costs in the short term, with the expectation that the threshold would be reduced as IESO Nova Scotia matures. IESO Nova Scotia acknowledges that any thresholds directed by the Board and implemented by IESO Nova Scotia are subject to re-examination and adjustment based on learnings from steady-state operations expected in the years ahead.

Future Costs & Recovery

The SBA provided the following recommendations regarding future IESO Nova Scotia cost recovery:

> The SBA … respectfully submits that the NSEB should require IESO-Nova Scotia to engage in further stakeholder sessions to explain how it plans to finalize costs for the current, and the next three, fiscal years, as well as how it plans to file for approval of a rate mechanism to recover these costs without increasing the financial burden on customers.
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[7] IESO Nova Scotia Rebuttal Submission, re: M12412 — IESO Nova Scotia 2025/2026 Revenue Requirement Application – Rebuttal Comments, December 22, 2025, p.3.

> In addition, the SBA respectfully requests the NSEB require IESO-Nova Scotia to hold stakeholder sessions with customer representatives to address the anticipated future costs and required changes in policies and revenue requirements.[8]

As noted in IESO Nova Scotia's 2026/2027 Revenue Requirement Application, IESO Nova Scotia has committed to developing a permanent cost recovery mechanism as follows:

> IESO Nova Scotia will develop and propose a permanent IESO Nova Scotia fee and cost recovery mechanism and assist in the development of a corresponding market participant cost recovery mechanism in 2026. IESO Nova Scotia's permanent fee and cost recovery mechanism and corresponding market participant cost recovery mechanism will be submitted for the NSEB's review and approval in Q2 2026, with the goal of NSEB approval prior to year-end 2026.[9]

IESO Nova Scotia will engage with stakeholders in advance of the submission of the permanent fee and cost recovery mechanism to the NSEB, providing a briefing and gathering feedback on its proposal. With respect to future revenue requirement costs and related topics raised by the SBA, IESO Nova Scotia notes that, at this very early stage of its operations, it is difficult to predict future revenue requirements years in advance as the SBA suggests, especially in light of the work that is due to be conducted over the next several years. For example, transition of real-time dispatch operations to IESO Nova Scotia is underway with an aspirational completion period of Q2 2027, establishing capital cost requirements for recovery in future years will be considered in 2026, and procurement of energy resources such as fast-acting generation are underway with future corresponding costs yet to be determined. Insofar as the SBA's reference to "plans to finalize costs" refers to controls, policies, and procedures regarding revenue requirement such as those recommended by DGT, the IESO reiterates it is amenable to and is actively working on their development in 2026. Nevertheless, IESO Nova Scotia will engage with stakeholders as part of and in advance of all future revenue requirement applications, to address the issues noted by the SBA and any others as they may arise.

Evidentiary Requirements

IG recommended the following with respect to evidentiary requirements of future revenue requirement applications:

> 2. As part of future RR applications, include the following at minimum:

[8] Small Business Advocate Submission, re: M12412 - Nova Scotia Independent Energy System Operator Application for Approval of its Proposed Expenditure and Revenue Requirement for the Test Year ending March 31, 2026, January 15, 2026, p.4/5.
[9] IESO Nova Scotia 2026/2027 Revenue Requirement Application (M12663), January 20, 2026, Exhibit D-1 p.41.

(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 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.[10]

IESO Nova Scotia confirms that it is amenable to providing all such documentation as applicable in future revenue requirement applications, with certain caveats.

With respect to item (ii) regarding formal support for budget items, IESO Nova Scotia notes that DGT's corresponding recommendation provided the following context:

> …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…**[11] [emphasis added]

DGT's recommendation pertains to "significant budget items", and so IESO Nova Scotia recommends that materiality of budgetary cost items be taken into consideration by the NSEB regarding direction on potential minimum filing requirements. Likewise with respect to item (iv): detailed support should pertain to significant budget items and corresponding costs above Board-approved over-expenditure thresholds.

[10] Industrial Group Submission, re: M12412 – IESO NS – Proposed expenditure and revenue requirements for test year ending March 31, 2026, January 15, 2026, p.5-6.
[11] Doane Grant Thornton Evidence, IESO Nova Scotia's 2025/2026 Revenue Requirement Application (M12412), October 28, 2025, p.3.

With respect to item (iii) regarding evidence of stakeholder engagement, IESO Nova Scotia suggests that such information may be most appropriate for inclusion in IESO Nova Scotia's annual report, which is mandated by section 32 of the *More Access to Energy Act*, and is due for submission "[w]ithin six months after the end of every fiscal year".[12] IESO Nova Scotia also suggests that summations of engagements is likely most appropriate for reporting rather than copies of correspondence, which will balance the value of non-confidential transparency while respecting the potential confidentiality of individual stakeholder engagements. Including copies of stakeholder correspondence should be evaluated on a case-by-case basis.

Miscellaneous

The IG provided the two additional recommendations:

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.[13]

The IG provided the following with respect to monthly reporting:

> The Industrial Group supports the IESO-NS's proposed monthly transition status reports to the Board. 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:
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> - 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.[14]

In its response to NSEB IR-1 regarding its 2025/2026 Revenue Requirement application (M12412), IESO Nova Scotia provided the following:

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[12] *More Access to Energy Act*, Section 32.
[13] Industrial Group Submission, re: M12412 – IESO NS – Proposed expenditure and revenue requirements for test year ending March 31, 2026, January 15, 2026, p.6.
[14] Industrial Group Submission, re: M12412 – IESO NS – Proposed expenditure and revenue requirements for test year ending March 31, 2026, January 15, 2026, p.5.

> To facilitate oversight, provide transparency of progress, and provide a timely update of any changes to the NSEB, the NSIESO proposes that it produces a monthly report on the status of the transition be provided to the NSEB on a one month lagging basis. The NSIESO proposes that the monthly report would provide a brief update on the status of transition in the following areas:
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> - People and roles
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> - Facilities and Technology
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> - Compliance[15]

The monthly reporting proposed by IESO Nova Scotia was made at a point in time when Phase I transition of people, roles, and responsibilities from NS Power was in progress and largely incomplete. Now, the Phase I transition is expected to be materially complete in the near future, and Phase II transition scoping and planning is underway, with an aspirational timeline for Phase II implementation in Q2 2027. As such, monthly reporting at this time is unlikely to produce meaningful updates to the Board and stakeholders until further progress is made. Accordingly, IESO Nova Scotia proposes that monthly reporting on these items begin in Q3 2026, or at such time when transitional activities have begun in relation to Phase II.

Otherwise, IESO Nova Scotia is amenable to the expansion of the monthly reporting originally proposed in its response to NSEB IR-1 (M12412), consistent with the intended spirit of that reporting to "provide a brief update on the status of transition" for informational purposes. To that end, IESO Nova Scotia does not recommend providing updates on specific costs incurred and expected to be recovered, as this would materially expand the scope and regulatory burden of the monthly reporting. As noted above, IESO Nova Scotia has committed to stakeholder engagement as part of its revenue requirement applications, where costs both budgeted and actual can be addressed in full, and written proceedings including IRs and intervenor submissions can be accommodated.

Regarding publishing a detailed IRP schedule, IESO Nova Scotia expects to do so by April 1, 2026. As the intervenors may be aware, the Dunsky Energy + Climate (Dunsky)-led IRP stakeholder engagement is underway, with a full stakeholder workshop planned for February 3, 2026. The IRP stakeholder engagement process will inform the IRP and IRP schedule, and that process is not expected to conclude until sometime in March 2026.

[15] NSEB IR-1, IESO Nova Scotia 2025/2026 Revenue Requirement Application (M12412), October 7, 2025.

Kind regards,

Mark Peachey
Director, Regulatory Affairs
IESO Nova Scotia