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Nova Scotia Power Inc.
PO Box 910
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Dear Mr. Willett:

M12521 – Nova Scotia Power Inc. Application for 2026 Demand Side Management Cost Recovery Rider

On September 29, 2025, Nova Scotia Power Inc. (NS Power) requested an extension to file its 2026 Demand Side Management Cost Recovery Rider (DCRR) application, which the Nova Scotia Energy Board granted. On October 22, 2025, NS Power filed an application with the Board for approval of the 2026 DCRR to come into effect on January 1, 2026. Additionally, NS Power requested approval of the recovery of DSM costs from individual Open Access Transmission Tariff (OATT) Municipal Electric Utilities (MEUs), as budgeted for each of them separately by EfficiencyOne (E1). NS Power recovers these costs through monthly billings of fixed installment amounts for each MEU.

This application was filed after NS Power filed its general rate application (M12451) (GRA), in which NS Power sought approval for several changes to its cost-of-service allocation methodology, including changes to how demand side management (DSM) costs are allocated. The DCRR charges in this application were estimated according to NS Power's revised method for allocating system costs using the new cost-of-service study, which removes the 25% allocation of DSM costs to system benefits and was filed for approval as part of NS Power's GRA. Under the new cost-of-service method, all DSM costs will be allocated to classes in accordance with program spending. NS Power explained that the 25% system benefit was an arbitrary allocation, and that following an analysis, there was minimal justification to support the 25% system allocation.

The DCRR application assumed that the Board would approve the proposed cost allocation methodology in the GRA, and that the new cost allocation methodology would be approved effective January 1, 2026, rather than the effective date for any new rates resulting from the GRA. In its recent decision on NS Power's GRA (2026 NSEB 8), the Board approved the cost of service and tariff changes proposed in that proceeding.

The Board established a paper hearing process for this matter. NS Power responded to Information Requests (IRs) and the Board received submissions from the Consumer

Advocate (CA), Small Business Advocate (SBA), Industrial Group (IG) and the MEUs. NS Power submitted its Reply on December 15, 2025.

The Board issued an Interim Order on December 22, 2025, which directed that the 2026 DCRR continue to use the approved 2025 DCRR charges starting on January 1, 2026, until further order of the Board in this matter or as part of NS Power's GRA. The interim order also directed that the direct monthly payments for the OATT MEUs approved by the Board in the 2025 DCRR would continue in the same fashion. Additionally, payments made from January 1, 2026, until the Board's final order, were directed to be subject to confirmation or adjustment.

The DCRR is a cost collection mechanism to recover the costs associated with DSM programs delivered by E1. The DCRR includes two components: a Program Cost Recovery (PCR) amount and a Balancing Adjustment (BA). The PCR is designed to recover the approved DSM program costs that NS Power pays to E1. The BA reconciles differences between the PCR amount billed in a calendar year and the actual cost of DSM programs delivered in the same calendar year.

The current application noted that in March 2025, the Provincial Government passed legislation extending E1's 2023-2025 DSM Plan to 2026, with a total investment of $63,750,000 for the 2026 Plan year. The 2026 DCRR set the PCR to collect E1's proposed 2026 DSM $63.75 million investment by customer class. Variances in E1's spending over the 2023-2026 period will be adjusted on a per rate class basis as part of future DCRR applications. The net imbalance with the 2023-2026 period will not be known until actual 2026 DSM Plan expenditures are reported in 2027.

The DCRR was initially set for 2023 in NS Power's 2022 general rate application and a rate was set for 2024 in a Board Order dated December 13, 2023, following a DCRR proceeding. However, these only included a rate for the PCR component. Program costs incurred in a given year are not fully determined until well into the following year. This timing lag results in the difference between the actual expenditures and the revenue collected being addressed in a DCRR application filed two years after being incurred. Therefore, the BA component in the 2026 DCRR relates to DSM cost differences in 2024. The BA either collects or returns to customers the PCR true-up amounts for 2024. The 2024 sales volume variances result in a return of $0.8 million to customers in 2026 through the BA.

In the 2025 DCRR in matter M11912, the Board directed that the BA charge must exclude all interest costs and directed NS Power to update the DCRR charges in a compliance filing. The Board explained that a future generic proceeding will thoroughly address the issue of s. 64AB of the *Public Utilities Act* regarding deferral and variance accounts. As such the BA charge in the 2026 DCRR application does not include financing costs.

Submissions

The CA and the MEUs confirmed their support and agreement with the proposed DCRR charges for 2026. The MEUs also supported the effective date of January 1, 2026.

The SBA noted that the tariff language for the BA of this application did not match the proposed language that was filed in NS Power's GRA. In an information request (IR) response, NS Power explained that as approval for the proposed language was being sought in the GRA, it was not included in this application. It also noted that these changes did not affect the DCRR amounts proposed in this application.

The SBA also noted that there are two matters that could affect the 2026 DCRR rates: (1) the interest applied to the BA amount for all customers; and (2) the effect of Renewable to Retail (RtR) customers. Regarding the former, NS Power provided alternative interest calculations in its application and IR responses using its weighted average cost of capital and the default rate under s. 64AB(3) of the *Public Utilities Act*. In respect of the latter, NS Power said it did not expect any DCRR impact from customers migrating to RtR service, but as the market does not yet exist it would monitor its development for long-term implications.

The IG confirmed its support for the proposed changes in the GRA to the tariff language to provide for an end of term true-up and the 100% allocation of DSM costs based on each class's program spending.

With respect to the outstanding interest on the BA balances, the IG asked NS Power to confirm how, and at what rate, the BA deferral is funded. In response to the IG, NS Power explained that the BA deferral is funded through long-term and short-term debt and equity with the current short term debt rate for 2026 at 4.14% (pretax). The IG expressed support for a proceeding to address s. 64AB of the *Public Utilities Act* and recommended that the Board approve the 2026 DCRR exclusive of any interest on BA balances.

The IG also suggested that the effective date of new general rates, the DCRR and the FAM AA/BA rider should be aligned.

NS Power noted that all parties supported the 2026 DCRR. NS Power acknowledged the IG's proposal that the effective date of the 2026 DCRR align with the rate changes resulting from the 2026-2027 GRA. NS Power also acknowledged that there is a mechanism to account for the difference in the PCR, but the current BA provides an overall net credit to customers and keeping that credit into 2026 will under-collect the true-up needed for 2026.

Findings

The Board's Interim Order dated December 22, 2025, approved the continuation of the 2025 DCRR charges commencing January 1, 2026, until further order of the Board in this matter, or as part of NS Power's ongoing GRA. NS Power filed its GRA prior to filing the 2026 DCRR application, so the GRA did not propose changes to the DSM rider amounts for 2026 or 2027; however, it did propose changes to how the BA is calculated.

All parties supported the 2026 DCRR as proposed by NS Power in this application. The Board approves the resetting of the DCRR with an effective date of January 1, 2026. The difference between the approved interim rates and the final rates will be addressed in future BA adjustments. The Board also approves the Direct Monthly Payments for OATT MEUs, effective January 1, 2026. At the MEU's election, future monthly payments in 2026 may be adjusted to account for the difference between the interim and approved monthly payments so that total payments in 2026 equal the annual PCR amounts payable by these customers (as set out in Exhibit N-1, p. 6). NS Power must promptly notify the Board if the MEUs elect to vary their monthly payments as noted.

As was the case with the Board's approval of NS Power's 2025 DCRR charges, interest is to be excluded. The Board's decision on the entitlement of NS Power and its customers to interest on BA balances will be held in abeyance until these matters are more fully considered and may, if interest is determined to be payable, be included in future DCRR adjustments. As noted in the Board's recent decision in NS Power's GRA, Board

Counsel has engaged London Economics International LLC to prepare a report about interest on deferral and variance accounts.

A Final Order will issue accordingly.

Yours very truly,

Stephen T. McGrath, K.C., Chair

Roland A. Deveau, K.C., Vice Chair

Steven M. Murphy, MBA, P.Eng., Member

c. William Mahody, K.C., Board Counsel