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Delivered by E-mail

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: M12521 - NSPI - Application for 2026 DSM Cost Recovery Rider (DCRR)

The Industrial Group submits these comments in respect of NSPI's application for approval of the Demand Side Management Cost Recovery Riders ("**DCRR**") to take effect January 1, 2026. The DCRR is designed to enable NSPI to recover costs associated with DSM programs developed and delivered by EfficiencyOne ("**E1**") and paid for under a Supply Agreement with E1. E1 manages its DSM program expenses independently.

The DCRR consists of two charges: the Program Cost Recovery ("**PCR**") and the Balance Adjustment ("**BA**"). The 2026 PCR is based on the legislated one-year extension of the 2023-2025 DSM Plan and the prescribed total investment of $63.75 million. The 2026 PCR is set to collect E1's 2026 DSM Extension amounts. The Board's decision regarding the 2026 Extension remains pending, though the current application proceeds on the assumption that the 2026 Extension will be approved as filed in Matter M12249.

The BA component of the 2026 DCRR captures variances from the 2024 PCR attributable solely to load fluctuations. Over- or under-spending by E1 on programs during the current DSM Plan period (2023-2026) will be subject to adjustment inter-class at the end of the Plan period. In last year's DCRR Application (Matter M11912), the Industrial Group suggested that the Tariff language should be revised to reflect these two different true-ups, or alternatively, that the practice should be changed to reflect the actual cost of program activities in the year. In the General Rate Application ("**GRA**"), Matter M12451, NSPI responded to the Industrial Group's submissions by amending the Tariff language to separately reflect the annual load true-up and the end-of-year Plan true-up. The Industrial Group supports this change.

Overall, the proposed 2026 DCRR represents an *average* rate increase of 0.2% to FAM customers. However, due to a change in the program components and allocation of those costs the impact is not uniform: Medium Industrial customers face an increase of 1.1%, while Large Industrial customers are proposed to bear the highest increase at 1.8%.

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The Industrial Group addresses three considerations arising from the 2026 DCRR Application:

1. The change in allocation of PCR DSM costs;

2. Interest to be applied to the BA balances in accordance with the *Public Utilities Act*; and

3. The effective date of the 2026 DCRR.

To the extent an issue is not addressed specifically, it should not be interpreted by NSPI or the Board as agreement or acceptance on the part of the Industrial Group.

1. Allocation of DSM Costs

The Industrial Group supports NSPI's proposal to change the allocation of DSM costs charged to customers from the current 75% cost of programs and 25% system benefit allocation to a 100% allocation based on each class's program spending. This allocation includes spending for Enabling Strategies.[1]

The shift to 100% allocation of DSM costs based on program spending represents a more principled approach to cost allocation. NSPI has confirmed in the concurrent GRA (Matter M12451) that this allocation shift will more accurately align cost responsibility with the direct beneficiaries of DSM programming.[2] This change is consistent with approaches used in other jurisdictions and simplifies the cost-of-service treatment of these costs.

The Board may compare the two approaches to DSM cost allocation by referring to Figure 1 of the Application[3] and the response to Board IR 1.[4] The change in allocation shifts costs between customer classes only marginally, resulting in a decrease for the residential class and a corresponding increase for the Large Industrial class.

2. Need to Address issue of Interest and Interpretation of s. 64AB of the *PUA*

In this application, NSPI is not seeking the Board's approval for recovery of interest on the BA amounts. NSPI's proposed financing costs for the 2026 BA, set out at Appendix-2, tabs "BA with Int", are provided for information only.[5] Nevertheless, NSPI maintains that it is entitled to interest on the BA component of the 2026 DCRR, calculated at its weighted average cost of capital ("**WACC**").[6]

In the 2025 DCRR proceeding (Matter M11912), the Board held in abeyance the issue of when, and at what rate, interest is to be applied to the BA portion of the DCRR until it could be more fully explored.[7] The Board indicated it would initiate a generic proceeding on the interpretation of s. 64AB of the *PUA*, including the prerequisite for recovery of interest under the DCRR and

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1 N-3, NSPI (IG) RIR – 1(c).

2 M12451, Exhibit N-8 - 2026-2027 GRA Appendix 9-13: Section 5.9 DSM Rider.

3 N-1, 2026 DCRR Application, page 4-5, Figure 1.

4 N-4, NSPI (NSEB) RIR-1.

5 N-3, NSPI (IG) RIR-4(b).

6 N-3, NSPI (IG) RIR-4 (a).

7 Nova Scotia Power Incorporated (Re), 2024 NSUARB 216, at para 7.

determination of NSPI's entitlement to interest for its BA balances dating back to 2023 under-recoveries.

NSPI has indicated that it remains prepared to participate in any process the Board establishes.[8] In the interim, NSPI continues to track and accrue carrying costs, with little incentive to expeditiously resolve this matter. In response to the Industrial Group, NSPI has confirmed that the BA deferral is funded through a combination of both long-term and short-term debt and equity, and that the current short term debt rate for 2026 is 4.14% (pre-tax).[9]

The Industrial Group supports the initiation of a generic proceeding to address the interpretation of s. 64AB. Until this determination is made, the Board should approve the 2026 DCRR exclusive of any interest on BA balances.

3. Interim Approval of the 2026 DCRR and/or Effective Date of the 2026 DCRR

NSPI submitted this application after receiving a three-week extension from the Board. The extension compressed the review timeline to ensure new rates are in place by January 1, 2026.

In considering NSPI's extension request, the Board inquired about any implications arising from the new rates not being approved by January 1, 2026.[10] NSPI responded by letter that 2025 rates could continue until new rates were approved:

> *In the event the DSM Rider was not approved by January 1, 2026, the current DSM Rider could remain in place post-December 31, 2025, until such time the new DSM Rider is approved. The level of spending for DSM programming in 2026 is forecast to increase only marginally relative to 2025 levels. Any under collection as a result of a delay in approval would be captured as part of future BA true ups.*[11]

The Board approved the extension request, taking specific consideration of the fact that "the current DSM Rider can remain in effect until a new DSM Rider is approved, with any under collection addressed in future BA true ups."[12]

When the 2026 DCRR application was filed, NSPI's position was inconsistent. At page 3, NSPI requested that the <u>2025</u> DCRR continue to apply until the application is approved; later, on page 9, NSPI requested that the <u>2026</u> DCRR be given interim approval. In response to Board IR 3, NSPI clarified it is asking for the Board to approve the <u>2026</u> DCRR on an interim basis effective January 1, 2026.

The Industrial Group submits that granting interim approval of the 2026 DCRR (or approval effective January 1, 2026) creates a real risk of rate volatility across customer classes, given the timing of the General Rate Application (**GRA**). The proposed rate increases in the GRA reflect the 2026 DCRR as filed. As the GRA hearing is scheduled for January 2026, if the new 2026

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[8] N-3, NSPI (IG) RIR-4 (c).

[9] N-3, NSPI (IG) RIR-9(b) and (c).

[10] Board Letter, dated September 29, 2025, page 1.

[11] NSPI Responding Letter, dated October 1, 2025, page 3.

[12] Board Letter, Dated October 2, 2025, page 1.

DSM rider is implemented effective January 1, 2026, rates would have to be reset twice. Customer classes facing increases in the DCRR—such as Medium and Large Industrial customers—would experience no offsetting benefit from the proposed GRA decreases. Conversely, classes experiencing DCRR decreases—such as the Large General class—would not experience the balancing effect of GRA-related increases. This misalignment would result in rate instability, which is inefficient for NSPI to implement and may create customer confusion.

The Industrial Group submits that, ideally, the effective date of new general rates, the DSM rider, and the FAM AA/BA rider should be aligned. This would allow the Board to consider the total amounts being recovered from each customer class in 2026, the overall rate impacts, potential rate shock, and options for smoothing, if appropriate. Alignment would also have the benefit of minimizing volatility by avoiding multiple rate changes within a short period. Regarding cost-recovery, from NSPI's perspective, the structure of both the DSM and FAM riders allows for any under-collection to be captured in the following year's true-up.

The Industrial Group is mindful, however, of the accumulation of interest on under-collected amounts and does not seek to delay the implementation date any longer than necessary to achieve alignment with the GRA.

CONCLUSION

The Industrial Group respectfully requests the Board:

1. Approve NSPI's proposed changes to the allocation of DSM costs under the DCRR;

2. Provide guidance on, or initiate a proceeding to address the issue of the interpretation of s. 64AB of the *PUA,* and the appropriate interest rate to be applied to the BA component of the DCRR; and

3. Confirm the effective date for the 2026 DCRR to correspond with rate changes associated with the GRA proceeding.

Yours truly,

Nancy G. Rubin

Brianne Rudderham

NGR/BER/lmc

cc Participants