M12663

NOVA SCOTIA ENERGY BOARD

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

-and-

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, 2027**

INFORMATION REQUESTS

To: **The Industrial Group**

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Issued at St. John’s, Newfoundland, this 12th day of May 2026.

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ALL IRS REFERENCE N-11, EVIDENCE OF DOANE GRANT THORNTON (DGT).

Request IR-1

Reference: DGT states repeatedly that it is "satisfied" with explanations or clarifications provided by IESO Nova Scotia, (pdf pages 5, 6, 25, 31).

(a) Please explain what analytical threshold DGT applied before concluding that it was "satisfied" with an explanation.

(b) Please confirm whether this conclusion required:

(i) evidence beyond management representations (and if so, what);

(ii) independent corroboration; or

(iii) quantitative testing of underlying assumptions.

(c) Please clarify whether "satisfied" should be interpreted as acceptance of arithmetic reasonableness only; or an opinion that costs are prudent, necessary, optimal and efficient (or otherwise).

Response - IR-1:

(a) There is no specific threshold for satisfaction with an explanation, it is instead based on professional judgement. We consider ourselves to be "satisfied" with an explanation when it directly responds to the question posed, is consistent with any other information reviewed and provided, and overall does not pose any concern from a compliance or industry practice perspective. We ensure the explanation does not raise any further questions under the scope of our review and is sufficient to support the conclusions in our report.

(b) In reaching our conclusions of being satisfied with explanations and clarifications provided by Nova Scotia Independent Energy System Operator ("IESO") for various cost categories, our primary procedures consisted of reviewing information in the Application, inquiry through the preparation of interrogatories to the IESO and review of subsequent responses, comparison to the guiding principles of Good Utility Practice

("GUP"), and confirmation of mathematical accuracy.

(i) We generally relied on explanations provided by management and supporting documents included in this Matter. Evidence beyond management representation was not reviewed throughout the scope of our review.

(ii) We did not perform independent corroboration of the explanations provided. However, industry standards and guiding principles were considered as a basis throughout the course of our review.

(iii) We did not conduct detailed quantitative testing of underlying assumptions. Our procedures included a review of assumptions for reasonableness and the confirmation of mathematical accuracy.

(c) We were not engaged to conduct a prudence review for this engagement. References to being "satisfied" should be interpreted as confirmation that costs were assessed for reasonability. Our industry expertise along with GUP principles were used as basis to conclude that costs were reasonable. Assessment of prudency and efficiency of costs were not within our scope of review.

Request IR-2

Reference: At pdf page 6, DGT states: "*It should also be noted that 2025/2026 actuals were unaudited, however, NSEB has directed IESO Nova Scotia to include audited financial statements in future applications*". Further, at pdf page 4, DGT states: "*Except as stated, we have not audited or otherwise attempted to verify any of the underlying information or data contained in this report*".

(a) Did reliance on unaudited actuals constrain DGT's ability to assess OM&A cost trends; variance explanations; and forecast reliability? Please explain your answer.

(b) Please describe any compensating procedures undertaken by DGT to mitigate this limitation.

Response - IR-2:

(a) The level of financial statement review did not ultimately impact our ability to execute our reasonableness review of forecast operations, maintenance and administration ("OM&A") costs. However, any subsequent changes to the financial information relied upon could impact the conclusions included in our report.

(b) No compensating procedures were undertaken beyond the management inquiries and review procedures performed as part of our engagement.

Request IR-3

Reference: At pdf page 11, DGT states that its procedures regarding IESO-NS's revenue requirement calculations were "*focused on the assessment of the accuracy and reasonableness of the calculation, the reasonableness of the underlying assumptions … and the internal consistency between information included in the Application.*"

(a) Please confirm that DGT did not test or examine whether IESO-NS selected the least-cost means of achieving its objectives.

(b) Please clarify whether being satisfied a cost is "reasonable" should be distinguished from a finding that it is optimal or necessary?

(c) Does DGT maintain that its reasonableness review is analogous to a prudence review? Please explain.

(d) If not, what additional evidence and analysis would be required for DGT to opine meaningfully on prudence?

Response - IR-3:

(a) We did not test or examine whether IESO selected the least-cost means of achieving its objectives.

(b) Yes, being satisfied that a cost is "reasonable" should be distinguished from a finding that it is optimal or necessary.

(c) No, our reasonableness review is not consistent with the requirements of a prudence review. Our procedures did not include assessment of management decisions, analysis of alternatives considered, or determination of whether least-cost options were chosen. Our procedures were limited to an assessment of reasonableness of the revenue requirement.

(d) To meaningfully opine on prudence, our scope of review would need to be broadened, and we would require additional evidence and analysis. Information on management's decision-making processes, alternative options considered, and assessment of whether management considered and selected the least-cost option would be needed. As noted in our response to IR-6 for M12412 and acknowledged by the Board in M12412, a meaningful prudence opinion would require detailed cost information and supporting evidence, documentation of management approval, variance thresholds, and explanations for cost category variances exceeding +/-10%. The burden will be on the IESO to demonstrate that the expenditures were prudent. [1]

[1] M12412 - NSEB Board Order for IESO Nova Scotia 2025-2026 Revenue Requirement Application

Request IR-4

Reference: At pdf page 8, DGT states: ***"At the core of GUP lies clear and transparent data access and supporting information. Therefore, to align with this principle, a more detailed forecasting process should be implemented for future applications."***

(a) Please identify the specific deficiencies in IESO-NS's forecasting processes that led DGT to recommend more detailed forecasting.

(b) Please identify any specific instances where IESO-NS did not fully meet the GUP principle of transparency, including, for example, cost breakdowns provided at a high level only, reliance on estimates, or deferral of key details to future filings.

(c) Did these deficiencies affect DGT's review and the strength of its conclusion that the overall 2026/2027 revenue requirement was reasonable for the purposes of this Application? Please explain.

(d) In DGT's view, does the absence of robust forecasting affect the risk of:

(i) material variances; and

(ii) reliance on deferral mechanisms in future years? Please explain.

Response IR-4

(a) The referenced excerpt from our report pertains to our review of IESO's response to IG-RIR-1, in which IESO provided actual and historical financial records, and a high-level cash flow modeling exercise. Given that the forecast was provided in PDF form, we did not review the underlying calculations or assumptions. Given that this is a new deferral mechanism, our recommendation for a more detailed forecasting process is based on a go-forward basis.

(b) While a high-level forecast was provided, we did not identify any deficiencies in their forecasting.

(c) Please refer to our above response to part b.

(d) No, the absence of more robust forecasting did not increase risk of material variances or reliance on deferral mechanisms in future years. However, more robust forecasting can help mitigate these two risks going forward and is therefore recommended on a go-forward basis.

Request IR-5

Reference: At pdf pages 16-18 and 28-29, DGT repeatedly notes that IESO-NS is in an early stage of operations and transitioning into Phase II.

(a) Please explain how IESO-NS's early-stage organizational maturity affects governance risk.

(b) Please identify governance risks that may arise from rapid staff growth; reliance on consultants; and evolving mandates under Phase II.

(c) Please explain whether DGT considers existing governance arrangements sufficient to manage these risks under GUP. If not, what is required?

Response - IR-5

(a) As an early-stage organization, IESO is still developing their governance structure, roles, responsibilities, policies, and internal controls. During this stage, developing entities are more likely to experience governance risks associated with evolving processes, maturing internal controls, and refining roles and responsibilities.

(b) Rapid staff growth can create overlapping or gaps in roles, which may lead to a lack of clarity surrounding roles and responsibilities, a lack of accountability, or inconsistent policies and controls. Reliance on consultants may create dependency on external expertise and limit knowledge growth for internal staff. Additionally, evolving mandates under Phase II may cause governance risks to arise if roles, responsibilities and decision-making authority do not grow and adapt to the expanded scope. However, these risks exist for any organization in the start-up phase and can be effectively managed through effective planning and oversight.

(c) We have not performed a detailed review of governance policies, procedures and practices. Through the course of our engagement, nothing has come to our attention which would suggest existing governance practices are inappropriate.

Request IR-6

Reference: At pdf pages 16-17, DGT notes that compensation and staffing benchmarks relied on peer utilities and ISOs, including larger and more mature organizations.

(a) Please explain how DGT adjusted benchmarking analysis to reflect IESO-NS's size, scope, and early-stage maturity.

(b) Please identify cost categories where peer comparisons were weak or incomplete.

(c) Please clarify whether benchmarking against larger ISOs alone is sufficient to demonstrate efficiency. If not, what would be required?

Response IR-6

(a) As noted by IESO, compensation and staffing was based on scans of recruitment sites for similar roles within Atlantic Canada and within similar sized organizations.[2] We did not conduct benchmarking analysis as part of this matter.

(b) Given that benchmarking was not conducted as part of our analysis, this is not applicable.

(c) We did not assess whether comparisons to larger ISOs alone is sufficient to demonstrate efficiency. The information stated in IESO's M12663 application indicates that third party information and market scans were used to develop initial estimates for compensation.[3]

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[2] - M12663 – IESO Nova Scotia 2026-2027 Revenue Requirement Application, January 2026, page 13.

[3] - M12663 – IESO Nova Scotia 2026-2027 Revenue Requirement Application, January 2026, page 13.

Request IR-7

Reference: At pdf pages 16-18, and 28-29 DGT notes that many administrative and technical roles remain vacant or are newly filled, while consultant use continues.

(a) Please explain whether DGT evaluated whether functions performed by consultants could be internalized at lower long-term cost.

(b) Please clarify whether DGT assessed overlap risk between internal hires and external advisors.

Response – IR-7:

(a) No, the scope of our review did not include long-term cost analysis or assessment of alternatives.

(b) No, the scope of our review did not include assessing whether overlap existed between internal hires and external advisors.

Request IR-8

Reference: At pdf page 20, with respect to governance costs, DGT states that *"Given the limited changes in this cost category, we did not complete any inquiry procedures in completing our analysis."*

(a) By this statement, please clarify whether it is DGT's opinion that governance effectiveness can be meaningfully assessed based on cost stability alone.

(b) Please explain why the absence of material year-over-year dollar changes was sufficient to forego inquiry into governance costs.

(c) Please confirm whether DGT assessed:

(i) the appropriateness of governance structures;

(ii) board workload and committee structure; or

(iii) whether governance practices are evolving appropriately for a maturing ISO.

Response - IR-8

(a) Governance effectiveness can not be assessed based on cost stability alone. Such assessment should also include qualitative considerations.

(b) Our review procedures for OM&A costs were focused on identifying material changes and inquiring of any notable variances. Given the lack of year-over-year variances in governance costs, we did not identify any cost-related issues that required additional inquiry within the scope of our review.

(c) We did not complete assessments on the appropriateness of governance structures, board workload and committee structure, or governance practices .

Request IR-9

Reference: At pdf page 36–37, DGT states: *"As at the date of this report, the development of specific guidelines, policies, and controls relating to the Deferral Mechanism has not yet been completed."*

(a) Please explain how the absence of finalized guidelines, accounting policies, thresholds, and controls aligns with, or departs from, GUP principles of regulatory compliance and cost-effectiveness.

(b) Does DGT agree that continued operation of a deferral mechanism (now proposed in perpetuity) without these safeguards increases the risk of:

i. unmanaged cost overruns;
ii. retroactive recovery risk to ratepayers; and
iii. diminished accountability? Please explain your answer.

(c) Please explain whether DGT considers approval of the revenue requirement and Deferral Mechanism appropriate in the absence of these foundational governance instruments.

Response - IR-9

(a) GUP generally includes having clear guidelines, accounting policies, thresholds, and controls in place. As noted in our report conclusion for M12412, at the time of our review NSIESO had basic financial controls in place; however, they had not yet developed accounting policies or identified thresholds for overruns or limits on the amount of costs that can be recovered from ratepayers through the OM&A deferral and variance account.[4] While the implementation of an OM&A deferral and variance account is aligned with GUP and standard industry practice, the absence of supporting policies, thresholds, and controls depart from GUP principles. In its decision in M12412, the Board directed NSIESO to have specific guidelines and accounting policies developed and approved before recovering net ongoing OM&A amounts from the Deferral and Variance

[4] N-1(i) - M12412 – IESO Nova Scotia 2025-2026 Revenue Requirement Application, August 5, 2025

Account, and to file this information no later than its application for the 2027/2028 revenue requirement.[5] Throughout the interrogatory process for M12663, IESO stated that the development of these safeguards is underway.[6]

(b) Yes, the absence of finalized financial guidelines, accounting policies, thresholds, and controls increases the risk of cost overruns being inadequately managed and reduces transparency in the monitoring and review of deferred amounts. As a result, there is a higher risk that cost variances could accumulate prior to timely review, reducing overall accountability and limiting amounts recoverable to taxpayers. However, we acknowledge that IESO is still in the start up phase and is working through the development of safeguards.

(c) Yes, given the context and immediate relief required, approval of the Deferral Mechanism is appropriate. We do recommend developing specific guidelines, policies, and controls going forward. We recognize that the Board has requested that the IESO file this information no later than its application for the 2027/2028 revenue requirement.[7]

[5] M12412 - NSEB Board Order for IESO Nova Scotia 2025-2026 Revenue Requirement Application

[6] N-4 - M12663 – NSIESO Responses to DGT Information Requests – 2026-2027 Revenue Requirement Application

[7] M12412 - NSEB Board Order for IESO Nova Scotia 2025-2026 Revenue Requirement Application

Request IR-10

Reference: At pdf page 38, DGT concludes: *"While the deferral of capital related costs is not uncommon for utilities across Canada, it does not appear to be standard practice for other Canadian ISOs."*

(a) Is DGT aware of the structural, regulatory or operational differences which explain why deferred capital is not uncommon for utilities but is not standard for ISOs? If so, please explain.

(b) Please explain why deferral of capital costs by an ISO may be inconsistent with GUP or standard ISO practice.

(c) Please identify any minimum conditions DGT considers necessary before capital costs could be appropriately deferred under GUP

Response - IR-10

(a) Yes. Utilities typically own and operate transmission and generation assets and recover capital investments over time. This allows utilities to stabilize customer rates when expenses differ from forecasted amounts, making deferred capital a common practice for utilities. In contrast, independent system operators ("ISOs") do not typically have physical asset ownership and recover their costs through approved operating budgets, reducing the need for deferring capital.

(b) This may differ on a case-by-case basis and a wholesome understanding of the reason and detail behind the proposed deferral should be sought to fully understand consistency with GUP. However, capital deferral by an ISO may be inconsistent with GUP in some cases as ISOs typically have limited capital and seek approval for capital expenditures.

(c) At a minimum, prior to deferring capital, it is recommended for the IESO to have clearly defined accounting policies, thresholds, and approval processes in place. Deferred capital costs would also be subject to a prudence review to ensure that all expenditures are reasonable and necessary.

Request IR-11

Reference: At pdf pages 33-34, DGT highlights the Board's prior direction: *"The Board directed IESO Nova Scotia to develop specific guidelines, accounting policies and financial controls…"*

(a) Please explain whether, in DGT's opinion, IESO Nova Scotia has demonstrated sufficient progress toward implementing these governance and control measures.

(b) Please identify any governance gaps that remain unresolved as of the date of this report.

(c) Please explain the risks to ratepayers and the regulatory process if such governance controls continue to lag operational expansion.

Response – IR-11

(a) While the Board directed IESO to develop specific guidelines, accounting policies and financial controls, this decision was not made until February 25, 2026, making it an ongoing process throughout the course of our review and creating a limited amount of time between the Board's decision and the completion of our report dated March 31, 2026. Therefore, the observations and conclusions included in our report reflect the status at the time of our review, are based upon the content of the Application, and exclude a status review of any subsequent and ongoing progress.

(b) At this time, we are not aware of any specific or unresolved governance gaps. However, our revenue requirement review did not constitute a detailed analysis of the qualitative components of the IESO's governance. We recognize that the governance policies and procedures remain an area of progress as the IESO works through the start-up and transition of operations.

(c) If governance controls lag operational expansion, this increases the risk of uncontrolled cost overruns which could place an excessive burden on ratepayers. Unestablished governance controls may also negatively impact the regulatory process by reducing transparency and creating challenges for the Board’s ability to conduct a timely assessment and review of IESO costs.