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Jennifer Ross
Director, Regulatory Planning & Compliance
Nova Scotia Power
1223 Lower Water Street
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Dear Ms. Ross:

M12833 - Nova Scotia Power Inc. - Decarbonization Deferral Account - 2025 Annual Report

The Decarbonization Deferral Account was proposed in NS Power's 2023-2024 General Rate Application. In a settlement agreement in that matter, NS Power and customer representatives agreed to the Decarbonization Deferral Account in principle. The specifics of the Decarbonization Deferral Account were approved by the Board in matter M11220. The Decarbonization Deferral Account is a regulatory asset that was proposed by NS Power to allow it to transfer the unrecovered net book value and decommissioning costs of thermal plant assets it expects to retire by 2030 to meet federal and provincial laws. The Decarbonization Deferral Account was proposed because these assets will be retired before NS Power has fully recovered its investment in them. The Board directed NS Power to provide annual reporting on certain items about the Decarbonization Deferral Account.

In NS Power's most recent General Rate Application, it proposed to securitize most of the costs earmarked to be transferred to the Decarbonization Deferral Account. It therefore did not include certain costs, such as depreciation of the coal assets and carrying costs, in its 2026-2027 revenue requirement. However, at this time, the required legislation to facilitate securitization has not been passed.

NS Power reported that there have been no changes to the assets expected to fall within the scope of the Decarbonization Deferral Account, or the associated expected retirement dates. However, it notes these dates are subject to change pending the results of the updated Integrated Resource Plan to be completed by Nova Scotia's Independent Energy System Operator in 2026.

NS Power stated that it "is committed to pursuing securitization for the recovery of the remaining net book value of its coal assets" and "remains hopeful that the legislative requirements required to pursue securitization will be concluded in a timely manner".

In response to comments from interested parties and direction from the Board in the previous year's report process, NS Power included information on the potential benefits of securitization versus amortization through the Decarbonization Deferral Account in the 2025 report. NS Power reported that the use of low-cost securitized debt (at an assumed rate of 5.0%) versus NS Power's weighted average cost of capital (currently 6.59%) results in customer benefits of approximately $184 million over an assumed 30-year period. This total was broken down as about $156 million in reduced income tax expense and about $28 million in reduced financing costs.

In its submissions, the Consumer Advocate noted that NS Power has provided no substantive update about the status of the securitization. The Consumer Advocate also stated that it "remains supportive of securitization, given the obvious benefits to customers". Given the importance of the issue, the Consumer Advocate recommended that NS Power be directed to report on this issue quarterly. The Consumer Advocate also sought further information from NS Power about why the scope of the securitization transaction could not be expanded to include all unrecovered costs NS Power is forecasting at the end of 2029.

NS Power responded that the scope of the securitization transaction could not be expanded to include some forecast decommissioning costs and capital additions that have not yet been incurred. It noted, however, that it agrees that increasing the scope of the securitization transaction has "the potential to increase customer value" but also noted that "there is a limit to the size of the transaction before the financing costs of securitization bonds would increase". NS Power stated that, once the timing of a potential securitization transaction is known, it would "work with its capital market advisors and propose to include additional incurred costs in the transaction if doing so continued to provide value to customers at the prevailing bond interest rate".

On the issue of quarterly reporting, NS Power stated:

> NS Power believes that until regulations are in place to enable securitization, quarterly updates would likely repeat the fact that legislative provisions have not yet been proclaimed and would not provide stakeholders or the Board with new information. For this reason, the Company believes that quarterly updates would have minimal value.
>
> NS Power commits to notifying the Board and stakeholders promptly of any material developments outside the annual reporting cycle, and once regulations are in place to enable securitization, NS Power plans to proceed with a regulatory application with pace.

The Board accepts this reasoning, and NS Power's proposed approach to reporting.

The Small Business Advocate stated it would like to understand the impact on potential benefits if securitization was to occur in 2027 versus 2026. NS Power stated that "[s]ecuritization would still provide significant benefits to customers if the transaction were to occur in 2027" and that the primary impacts of a delay would be the delayed value of the reduced financing costs and potential interest rate risk. It committed to providing an updated analysis illustrating the forecast benefit of securitization in its next report, if securitization has not yet occurred. The Board directs it to do so.

The Report is accepted as filed.

Yours very truly,

Crystal Henwood

Crystal Henwood
Clerk of the Board

c. Interested Partes