Draft Terms of Reference ("TOR") for Review of Interest Rate Treatment associated with multiple NS Power Deferral and Variance Accounts

Introduction / context for proceeding

In the Decision in matter M11912 issued on December 23, 2024, the Nova Scotia Energy Board ("Board") mentioned that it "*will establish a generic proceeding to more thoroughly address and consider issues arising from the application of s. 64AB to deferral and variance accounts… including the possibility of establishing a formal rule for the assessment of interest*."

The Board is initiating this generic proceeding. The Board Counsel has retained London Economics International, LLC ("LEI") to independently review the current treatment of interest rates associated with NS Power's variance and deferral accounts, and to analyze potential alternative approaches.

Background

Below is a brief summary of current treatment of interest rates for the five deferral/variance accounts, which would be reviewed as part of this proceeding.

<u>Demand Side Management Cost Recovery Rider ("DCRR")</u>: In the DCRR Decision (issued on December 23, 2024, in M11912), the Board found that NS Power had not met the burden of demonstrating that financing costs on Balancing Adjustment ("BA") balances should be calculated using something other than the default interest rate (i.e., the Bank of Canada policy interest rate plus 1.75%, simple interest) under s. 64AB of the *Public Utilities Act* ("PUA"). The Board directed that the proposed BA charge be adjusted to exclude all interest and held its decision in abeyance on the entitlement of NS Power and its customers to interest on BA balances, pending this generic proceeding.

<u>Fuel Adjustment Mechanism ("FAM")</u>: FAM balances attract interest at NS Power's weighted average cost of capital ("WACC"), as approved in the 2022–2024 GRA Decision (M10431). The same rate applies to both over- and under-recoveries. In the 2026–2027 GRA Decision (issued on March 25, 2026, in M12451), the Board referenced its previous decision with regards establishing "*a generic proceeding to more thoroughly address and consider issues about the application of that provision*" and stated "*in the interim, the Board finds it appropriate to continue to exercise its discretion under s. 64AB(3) to set interest on deferral and variance accounts at NS Power's WACC*."

<u>Storm Cost Recovery Rider ("SCRR")</u>: In the 2023 SCRR Decision (issued on December 2, 2024, in M11692), the Board confirmed that the SCRR balancing mechanism for cost recovery allows for financing costs. The financing costs are calculated using NS Power's WACC. In the 2026–2027 GRA Decision (issued on March 25, 2026, in M12451), the Board approved the continuation of the SCRR pilot in 2026 and 2027 on a symmetrical basis. Interest on deferral and variance accounts generally remains set at NS Power's WACC on an interim basis, pending this generic proceeding.

Securitization Deferral: In the 2026–2027 GRA Decision (issued on March 25, 2026, in M12451), the Board approved the deferral of the depreciation expense and financing costs of the unrecovered net book value of the thermal generation assets pending potential securitization, effective only when new rates are implemented. The Board found that WACC can be applied to the deferral balance during the 2026–2027 test period. Thereafter, subject to a further order of the Board, NS Power may earn only its weighted average cost of debt, and must seek leave of the Board, in advance, to continue to accrue amounts to the deferral account after December 31, 2027.

Decarbonization Deferral Account ("DDA"): The DDA is a regulatory mechanism that provides flexibility for recovering the unrecovered net book value and unrecovered decommissioning costs of the thermal generation assets required to be retired by 2030. It was approved in principle in the 2022–2024 GRA Decision (in M10431) and formally established in the DDA Decision (issued on April 10, 2024, in M11220). Costs are to be transferred into the DDA only as the underlying assets are retired. On the question of interest, the Board found in M11220 that the appropriate rate of return on the DDA should be set in a General Rate Application, and that, by default, the rate specified in s. 64AB of the PUA (i.e., the Bank of Canada policy interest rate plus 1.75%, simple interest) applies unless otherwise directed by the Board in a future proceeding.

Scope of this proceeding

The Board envisions the following steps within the proceeding:

- **Step 1**: ***Terms of Reference (TOR)***: this Draft TOR is being sent to interested parties for comment. This would ensure that key stakeholder concerns are considered in the review. Comments would be incorporated, as appropriate, and Terms of Reference would be finalized.

- **Step 2:** ***Review of current treatment of NS Power's variance accounts***: LEI will undertake a review of background material (including NS Power filings, stakeholder comments, and Board decisions) associated with the current interest rate treatment for NS Power's variance/deferral accounts, including the FAM, DCRR, SCRR, DDA and the Securitization Deferral account.

- **Step 3:** ***File Information Requests and review responses***: following its review in Step 2, LEI will prepare and file information requests for NS Power.

- **Step 4:** ***Analyze optional interest rate treatment for deferral and variance account balances***: in addition to reviewing NS Power's information/responses provided following Step 3, LEI will independently analyze alternative interest rate treatment options, including the default interest rate under s. 64AB (i.e., the Bank of Canada policy interest rate plus 1.75%, simple interest), WACC, interest rate periods and any other treatment options.

- **Step 5**: ***LEI to prepare and file an independent report***: following completion of its analysis, LEI will draft and file its independent report with the Board on the interest rate treatment for these account balances and potential future NS Power deferral and variance accounts.

- **<u>Step 6:</u>** ***Interrogatories (IRs) on LEI Report***: participants will be provided an opportunity to submit IRs on the LEI Report, which would be followed by LEI responses.
- **<u>Step 7:</u>** ***Filing of NS Power/Intervenor evidence***: NS Power and intervenors/participants to file their evidence (if any).
- **<u>Step 8:</u>** ***IRs on NS Power/Intervenor evidence***: participants will be provided an opportunity to submit IRs on NS Power/intervenor evidence, which would be followed by IR responses.
- **<u>Step 9:</u>** ***Supplemental/amended Report:*** LEI may provide a supplemental/amended report addressing any issues raised by NS Power and Intervenors.
- **<u>Step 10:</u>** ***Submissions:*** NS Power and participants/Intervenors to file final submissions.
- **<u>Step 11</u>: Rebuttal**: LEI files rebuttal (if needed)
- **<u>Step 12:</u>** ***Oral hearing (optional)***, if deemed necessary by the Board.