Nova Scotia POWER
An Emera Company

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July 30, 2026

Crystal Henwood
Clerk of the Board
Nova Scotia Energy Board
1601 Lower Water Street, 3rd Floor
Halifax, NS B3J 3S3

Re: M12954 – Review of NS Power's Treatment of Variance Accounts – Comments on LEI Draft Terms of Reference

Dear Ms. Henwood:

In its Decision in matter M11912, issued December 23, 2024, the Nova Scotia Energy Board (NSEB, Board) noted that it would, "…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 has now initiated the generic proceeding contemplated under M12954.

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. Draft Terms of Reference (ToR) were provided on July 6, 2026 and all parties were invited to provide comments by July 30, 2026.

The following are Nova Scotia Power Incorporated's (NS Power, Company) comments on the draft ToR.

NS Power notes that the ToR document title is *Interest Rate Treatment,* which may imply that the deferral and variance accounts are only being financed through debt. For clarity, NS Power suggests that the title be revised to *Cost of Financing Treatment* to recognize that its deferral accounts are financed through sources other than debt alone.

The following comments from NS Power relate to 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.

In NS Power's respectful submission, during that review, each alternative must consider the regulatory compact that provides NS Power with the opportunity to recover all prudently incurred costs and the resulting impact on ratepayers. Regulatory assets and liabilities form part of NS Power's rate base. Section 45 of the *Public Utilities Act* (PUA) provides that every public utility is entitled to earn annually such return as the Board deems just and reasonable on the rate base fixed and determined by the Board and that such return is in addition to expenses that the Board allows as reasonable and prudent. NS Power's financing costs (i.e. its weighted average cost of capital) were most recently approved by the Board in M12451 as the just and reasonable cost of financing.

The application of WACC to determine the cost of financing fixed assets and deferred costs is accepted utility practice. This has also been the long-established practice in Nova Scotia as reflected in the application of WACC to determine the Allowance for Funds Used During Construction (AFUDC), the determination of interest associated with FAM debits and credits, and the calculation of net present value in the evaluation of capital investments. This practice has also been vetted and approved by the Board through NS Power's Capital Expenditure Justification Criteria and Accounting Policies and Procedures.

Section 45 of the PUA effectively codifies the regulatory compact, which provides that NS Power must be given an opportunity to recover its costs and a reasonable return on its investment.

With respect to the regulatory process set out in Steps 6 through 12, NS Power respectfully submits that it should be provided with the opportunity to provide final submissions/rebuttal and that right ought not be afforded to LEI. In addition, NS Power submits that this matter should be set as a paper hearing, with the option to convert to an oral hearing and that a default oral hearing (even if termed as optional) is not appropriate.

Yours truly,

Mike Willett

Michael Willett
Sr. Director, Regulatory