

Review of IESO Nova Scotia's fee recovery mechanism application

prepared for the Nova Scotia Energy Board by London Economics International LLC

October 13th, 2026



London Economics International LLC ("LEI") was engaged by the Nova Scotia Energy Board ("NSEB" or the "Board") to provide an independent expert assessment of the fee recovery mechanism application filed by the Independent Energy System Operator of Nova Scotia ("IESO Nova Scotia"). LEI considers the proposed mechanism, a fixed monthly direct charge to the five load-serving entities allocated in proportion to load served, to be reasonable as an interim measure, given IESO Nova Scotia's largely fixed costs and the small share of total electricity costs that ISO fees represent.

LEI notes, however, that several features of the mechanism are better suited to IESO Nova Scotia's current Phase 1 mandate than to its enduring role. Following the Phase 2 transfer of the Open Access Transmission Tariff ("OATT") and system operation responsibilities, LEI recommends that IESO Nova Scotia undertake a granular function-level cost allocation exercise, consider the advantages and disadvantages of moving to a primarily usage-based fee charged to all transmission customers, and re-evaluate the recovery mechanism, including recovery through OATT schedules, as part of its first revenue requirement application after its Phase 2 transition.

Table of contents

LIST OF ACRONYMS	3
1 EXECUTIVE SUMMARY	4
2 BACKGROUND – CONTEXT FOR IESO NOVA SCOTIA APPLICATION	6
3 UNDERLYING PRINCIPLES FOR COST ALLOCATION AND RATE DESIGN	8
4 IESO NOVA SCOTIA'S CURRENT MANDATE AND POTENTIAL EVOLUTION	10
4.1 STATUTORY MANDATE UNDER THE MAEA	10
4.2 CURRENT MANDATE UNDER PHASE 1	11
4.3 POTENTIAL EVOLUTION UNDER PHASE 2	11
5 REASONABLENESS REVIEW FOR PROPOSED RECOVERY OF IESO NOVA SCOTIA'S REVENUE REQUIREMENT	12
5.1 REVENUE REQUIREMENT COMPONENTS	12
5.2 APPROPRIATENESS OF PROPOSED COST ALLOCATION BASED ON LOAD	14
5.3 IS A FLAT MONTHLY FEE CHARGED TO EACH LSE REASONABLE?	16
5.4 IS THE PROPOSED RECOVERY MECHANISM (DIRECT INVOICING VIS-À-VIS OTHER OPTIONS) APPROPRIATE?	18
5.5 APPROPRIATENESS OF THE PROPOSED TRUE-UP OPTIONS	21
5.6 REVIEW OF FEE CALCULATION METHODOLOGY	22
6 CONCLUDING REMARKS	24
7 APPENDIX A – LIST OF WORKS CONSULTED	25

Table of figures

FIGURE 1. APPLICATION OF RATE DESIGN PRINCIPLES.....	5
FIGURE 2. IESO NOVA SCOTIA’S PROPOSED FEES FOR LSEs (APPLICABLE BETWEEN DECEMBER 2026 AND MARCH 2027).....	7
FIGURE 3. IESO NOVA SCOTIA’S 2026/27 REVENUE REQUIREMENT COMPONENTS	13
FIGURE 4. SUMMARY OF COST ALLOCATION AND RATE DESIGN IN OTHER SELECT NORTH AMERICAN ISOs	14
FIGURE 5. ILLUSTRATION OF THE FEE CALCULATION METHODOLOGY.....	23

List of acronyms

ABC	Activity-based costing
AESO	Alberta Electric System Operator
AUC	Alberta Utilities Commission
CER	Canada Energy Regulator
DSM	Demand Side Management
DVM	Revenue Requirement Deferral and Variance Mechanism
FAM	Fuel Adjustment Mechanism
FERC	Federal Energy Regulatory Commission
FTI	FTI Consulting LLP
FY	Fiscal Year
GW	Gigawatt
IESO	Independent Energy System Operator
IESO Nova Scotia	Independent Energy System Operator of Nova Scotia
IG	Industrial Group
IR	Information Request
ISO	Independent System Operator
ISO-NE	ISO New England Inc.
IT	Information Technology
LEI	London Economics International LLC
LRS	Licensed Retail Supplier
LSE	Load Serving Entity
MAEA	More Access to Energy Act
MEU	Municipal Electric Utilities
MW	Megawatt
MWh	Megawatt-hour
NARUC	National Association of Regulatory Utility Commissioners
NS	Nova Scotia
NSEB	Nova Scotia Energy Board
NYISO	New York Independent System Operator
OATT	Open Access Transmission Tariff
OEB	Ontario Energy Board
OM&A	Operations, maintenance and administration
PJM	PJM Interconnection, LLC
RtR	Renewable to Retail
SBA	Small Business Advocate
US	United States

1 Executive summary

LEI was retained by the NSEB to provide an independent expert assessment of the fee recovery mechanism application filed by IESO Nova Scotia on July 31st, 2026 (Matter M13007). This report presents the results of LEI's review of key aspects of the proposed mechanism, together with LEI's findings associated with each:

- i. ***IESO Nova Scotia's revenue requirement components (e.g., review of fixed vs. variable components):*** IESO Nova Scotia's cost components are largely fixed and are expected to remain so as IESO Nova Scotia assumes system operation responsibilities under Phase 2. While system operation costs may scale with the size of the grid being managed, for any given ISO they do not vary materially with energy throughput. The fixed nature of these costs does not, however, diminish the importance of cost causation. When allocating the revenue requirement, costs should be assigned to the customers whose use of the system gives rise to them, in proportion to their contribution to the relevant cost driver.
- ii. ***Allocation of revenue requirement to the five Load Serving Entities ("LSEs") based on load served (in MWh):*** LEI considers allocation in proportion to MWh load served reasonable at this stage, given IESO Nova Scotia's limited Phase 1 mandate. Once Phase 2 is implemented, the NSEB may wish to direct IESO Nova Scotia to undertake a more granular, function-level cost allocation exercise, including explicit treatment of exports.
- iii. ***Flat monthly fee (as opposed to charging based on MW capacity or MWh usage):*** a flat monthly fee proportional to load served is a reasonable interim measure that provides revenue certainty and administrative simplicity. Once Phase 2 is implemented, IESO Nova Scotia should consider the advantages and disadvantages of moving to a MW- or MWh-based fee charged to all transmission customers, as part of its committed re-evaluation of the fee recovery mechanism. Such an approach may better reflect cost causation over the long term and is used by several North American ISOs.
- iv. ***Recovery mechanism, i.e., direct monthly invoicing of five LSEs (as opposed to other options such as amending the Open Access Transmission Tariff ("OATT") administered by NS Power):*** direct monthly invoicing of the five LSEs is a reasonable interim mechanism while IESO Nova Scotia neither owns the OATT nor operates the grid. In its application, IESO Nova Scotia has committed to re-evaluate its fee recovery mechanism once it reaches Phase 2 steady state operation. LEI recommends that this re-evaluation, including recovery through OATT schedules, form part of its first revenue requirement application after the Phase 2 transition, rather than a separate proceeding.
- v. ***True-up application options, i.e., lag of one year, performed via a separate compliance filing, vis-à-vis lag of two years, performed via the annual revenue requirement application:*** both options would deliver full recovery of IESO Nova Scotia's actual costs, and the financial difference between the two options is currently modest. LEI recommends Option 1 (two-year lag via the annual revenue requirement application) on the grounds of regulatory efficiency, as it avoids separate compliance filings and allows variances to be reviewed for prudence and disposed of in a single proceeding.

- vi. **Fee calculation methodology:** LEI considers the fee calculation methodology to be reasonable: inputs are traceable to the application, the interim fees already paid by NS Power are credited against the balance to be recovered, and the resulting monthly fees are allocated in proportion to load served. LEI does not recommend any changes to the methodology.

LEI assessed each of these aspects against five broadly accepted principles of cost allocation and rate design: (i) financial stability; (ii) cost causation and avoidance of cross-subsidies; (iii) incentives compatibility; (iv) non-discrimination; and (v) administrative simplicity and transparency (see Figure 1 below).

Figure 1. Application of rate design principles

LEI assessment	Principles applied	Key observations
Interim mechanism (Sections 5.2-5.4) Accept the flat monthly fee, allocated on MWh load and invoiced to the five LSEs, as an interim measure.	• Administrative simplicity and transparency • Financial stability	• Fixed monthly charges recover IESO Nova Scotia's largely fixed costs evenly and shield it from load forecast risk in its early years of operation. • Invoicing five LSEs is straightforward and avoids reliance on NS Power while NS Power owns the OATT.
Granular cost allocation (Section 5.2) Direct a function-level cost allocation, including explicit treatment of exports, once Phase 2 is implemented.	• Cost causation and avoidance of cross-subsidies • Incentives compatibility	• This generally matters more as IESO Nova Scotia's mandate expands and exports potentially grow. North American ISOs assign costs to the functions and customers that drive them. • Doing the exercise in the first revenue requirement application after Phase 2 avoids a separate fee recovery proceeding.
Billing determinant (Section 5.3) Consider a primarily MW- or MWh-based fee charged to all transmission customers after Phase 2.	• Cost causation and avoidance of cross-subsidies • Non-discrimination	• It is efficient, consistent with cost causation, and has wide ISO precedent. • Can be assessed in the first post-Phase 2 revenue requirement application.
Recovery mechanism (Section 5.4) Retain direct invoicing in the interim. Re-evaluate the mechanism, including recovery through OATT schedules, in the first revenue requirement application following Phase 2.	• Cost causation and avoidance of cross-subsidies • Non-discrimination	• The coordination and timing concerns that currently favour direct invoicing largely fall away once IESO Nova Scotia owns the OATT. • IESO Nova Scotia's functions are primarily transmission-related, and the OATT is the established vehicle for non-discriminatory charges to all transmission customers.
True-up (Section 5.5) Adopt Option 1: incorporate prior-year variances into the annual revenue requirement application with a two-year lag.	• Administrative simplicity and transparency • Financial stability	• Both options deliver full cost recovery; Option 1 avoids a separate compliance filing and lets variances be reviewed and disposed of in a single proceeding. • A year earlier under Option 2 brings only a modest benefit but with an additional burden associated with multiple filings.
Fee calculation methodology (Section 5.6) Reasonable; no changes recommended.	• Financial stability • Administrative simplicity and transparency	• Its inputs are traceable to the application, and interim fees already paid are credited against the balance to be recovered. • The methodology recovers the full 2025/26 and 2026/27 revenue requirements, net of interim fees and the true-ups by March 31st, 2027.

2 Background – context for IESO Nova Scotia application

IESO Nova Scotia is the recently established independent system operator for Nova Scotia.¹ Under Phase 1 of the transition contemplated by the More Access to Energy Act (“MAEA”), IESO Nova Scotia has assumed the system planning, energy resource procurement, and interconnection functions previously performed by NS Power, but does not yet have operational control of the transmission grid or ownership of the OATT.²

IESO Nova Scotia currently recovers its revenue requirement through a temporary fee mechanism charged monthly to NS Power, which the NSEB approved by Interim Order dated February 26th, 2026 in Matter M12663. The interim fees are payable until the earlier of March 31st, 2027 or the effective date of a Board-approved replacement mechanism. In its 2026/27 revenue requirement application, IESO Nova Scotia committed to develop a permanent fee recovery mechanism, informed by jurisdictional research and stakeholder engagement, and to submit it for the NSEB’s approval in 2026.³

On July 31st, 2026, IESO Nova Scotia filed its fee recovery mechanism application (Matter M13007) pursuant to subsection 29(1) of the MAEA. The MAEA does not specify the manner in which IESO Nova Scotia’s fees are to be calculated, the mechanism through which they are to be recovered, or the parties responsible for paying them. The application seeks the NSEB’s approval of: (i) a fixed monthly direct charge to the five LSEs in Nova Scotia, allocated in proportion to each LSE’s share of annual load served; (ii) the corresponding fees, effective December 1st, 2026, which are designed to recover the remaining 2025/26 and 2026/27 revenue requirement by March 31st, 2027; (iii) an annual revenue requirement true-up, for which two options are presented, together with an annual load allocation adjustment; and (iv) the approach of seeking approval of future fees, true-ups, and load allocation adjustments as part of IESO Nova Scotia’s annual revenue requirement application. The application does not address how the LSEs would recover these costs from their own customers.^{4,5}

Under the proposed mechanism, IESO Nova Scotia would recover the balance of its 2025/26 and 2026/27 revenue requirement, net of the interim payments already made by NS Power, through fixed monthly charges to the five LSEs over the four months inclusive of December 2026 to March 2027. The charges total approximately \$2.66 million per month, of which approximately \$2.59 million would be payable by NS Power, with the remainder allocated among the four municipal

¹ IESO Nova Scotia was established by the Government of Nova Scotia through the More Access to Energy Act on October 24th, 2024. Source: IESO Nova Scotia. *Spring 2026 Quarterly Report | IESO Nova Scotia*. May 15th, 2026.

² NSEB. Matter M13007. *IESO Nova Scotia Fee Recovery Mechanism Application*. July 31st, 2026. Pages 4 and 6 of 48.

³ Ibid. Pages 3 and 6 of 48. See also NSEB. Matter M12663. *IESO Nova Scotia 2026/27 Revenue Requirement Application*. January 20th, 2026. Page 41.

⁴ NSEB. Matter M13007. *IESO Nova Scotia Fee Recovery Mechanism Application*. July 31st, 2026. Pages 3, 7, and 9 of 48.

⁵ IESO Nova Scotia filed an illustrative bill impact model in response to an information request in its fee recovery mechanism proceeding. Source: IESO Nova Scotia, *Responses to Industrial Group Information Requests, IR-1, Attachment 1*. September 22nd, 2026.

utilities in proportion to load served. IESO Nova Scotia's proposed flat monthly fees are shown in Figure 2 below.

Figure 2. IESO Nova Scotia's proposed fees for LSEs (applicable between December 2026 and March 2027)

Market participant	# Months revenue collection	Monthly fees
NS Power	4	\$ 2,591,500
Berwick Electric Commission	4	\$ 18,785
Riverport Electric Light Commission	4	\$ 4,483
Town of Mahone Bay	4	\$ 6,882
Town of Antigonish	4	\$ 42,587
Total	4	\$ 2,664,236

Source: NSEB. Matter M13007. IESO Nova Scotia Fee Recovery Mechanism Application. July 31st, 2026. Page 4 of 48.

The application is supported by three expert submissions: Appendix 1, a jurisdictional scan by FTI Consulting LLP ("FTI") of ISO fee recovery mechanisms in other North American jurisdictions; Appendix 2, FTI's recommendation report, which evaluates four candidate recovery mechanisms and recommends the proposed direct charge; and Appendix 3, the fee calculation model prepared by Power Advisory LLC ("Power Advisory"). IESO Nova Scotia also conducted stakeholder engagement during the development of the proposal, as described in its July 6th, 2026 progress update to the NSEB.⁶ LEI has reviewed the application and its appendices in preparing this report. The individual elements of the proposal are assessed in Section 5.

Following this introductory section, Section 3 sets out the underlying principles for cost allocation and rate design. Section 4 describes IESO Nova Scotia's current mandate under the MAEA and how it may evolve. Section 5 presents LEI's assessment of the key elements of the proposed fee recovery mechanism, followed by concluding remarks in Section 6.

⁶ NSEB. Matter M13007. *IESO Nova Scotia Fee Recovery Mechanism Application*. July 31st, 2026. Pages 7 and 9 of 48.

3 Underlying principles for cost allocation and rate design

Cost allocation and rate design determine allocation and collection of the revenue requirement among various customer groups. Three broad steps are key to the process: (i) functionalization and classification of costs; (ii) allocation to identified customer classes; and (iii) design of end-user rates.

There are several key outcomes that need to be considered when designing rates. These include ensuring financial sustainability of the business, appropriately allocating costs between customers (or customer classes), minimizing (or if possible, removing) cross-subsidies, allowing for resilience to adapt to unexpected changes, and encouraging efficiency in both consumption and production.

There are five commonly accepted principles of utility ratemaking which apply to the topics of cost causation, cost of service, and rate design. These principles originate from the Bonbright framework,⁷ and have been referenced by Canadian regulators including but not limited to the OEB,⁸ the Alberta Utilities Commission (“AUC”),⁹ and the Canada Energy Regulator (“CER”),¹⁰ as well as in US regulatory manuals like the National Association of Regulatory Utility Commissioners (“NARUC”),^{11,12} and by the Federal Energy Regulatory Commission (“FERC”).¹³ The five principles are briefly summarized below:

1. **Financial stability:** rates must be set at a level that enables the entity to meet its statutory obligations to serve and generate sufficient cash flows to support necessary investment.
2. **Cost causation and avoidance of cross-subsidies:** one of the most fundamental principles of rate design is that the customer who causes a cost to be incurred should be responsible for paying that cost. If cost causation is perfectly identified, cross-subsidies (either between or within customer classes) can be avoided.
3. **Incentives compatibility:** rate design should, where possible, provide appropriate incentives to both companies and customers. Depending on the circumstances of a particular jurisdiction, the behaviour desired by policymakers may influence prioritization of incentives. This in turn may affect rate design choices.

⁷ James Cummings Bonbright, Albert L. Danielsen, and David R. Kamerschen. *Principles of Public Utility Rates* (2nd edition). 1988. P. 383.

⁸ Ontario Energy Board. EB-2012-0410 Board Policy A New Distribution Rate Design for Residential Electricity Customers. 2015. P. 6.

⁹ Alberta Utilities Commission. AESO Bulk and Regional Rate Design Application. 2022.

¹⁰ Canada Energy Regulator. Regulation of pipeline traffic, tolls and tariffs. 2021.

¹¹ National Association of Regulatory Utility Commissioners. Primer on Rate Design for Cost-Reflective Tariffs. 2021. P. 8-9.

¹² National Association of Regulatory Utility Commissioners. Electric Utility Cost Allocation Manual. 1992. P. 18-23.

¹³ Federal Energy Regulatory Commission. Cost-of-Service Rates Manual. 1999. P. 10.

4. ***Non-discrimination:*** similarly situated customers should be treated equally under similar terms and conditions. This principle supports fairness, consistency, and public confidence in the rate-setting process.
5. ***Administrative simplicity and transparency:*** rates should be straightforward for customers to understand, calculate, and verify. Complex rate designs increase costs to consumers if they increase accounting and billing burden and may result in more time being spent proving that the rate design is fair. Transparent rate methodologies facilitate stakeholder engagement and regulatory oversight, also ensuring that the basis for rates is clear and evidence based.

Stability in rates benefits both IESO Nova Scotia and its customers by limiting spikes in energy bills and revenue shortfalls. The principle of cost causation ensures that revenue is recovered proportionally from the customers responsible for the costs. Compatibility with incentives can help to achieve socially desirable outcomes such as decarbonization and affordability. Non-discrimination ensures IESO Nova Scotia customers are treated equally. Finally, greater simplicity and transparency prevent confusion and perceived unfairness by customers.

4 IESO Nova Scotia's current mandate and potential evolution

IESO Nova Scotia was established under the MAEA, which provides for the transfer of system operator functions from NS Power to an independent system operator in phases, with the corresponding sections of the MAEA proclaimed in force as each phase proceeds. Under subsection 29(1) of the MAEA, IESO Nova Scotia applies to the NSEB for approval of its revenue requirement and the fees it proposes to charge. The MAEA does not, however, prescribe how those fees are to be calculated, through what vehicle they are to be charged, or to whom.¹⁴

4.1 Statutory mandate under the MAEA

The MAEA's purposes include increasing competition and innovation in the energy sector, ensuring a reliable and economical energy supply, providing for competitive procurement of new resources, and providing for a phased transition of the system operator from NS Power to an independent operator. Section 13(1) of the MAEA states, "*the business and affairs of the IESO must be carried on without the purpose of gain and any revenues must be used by the IESO for the purpose of carrying out its objects.*" The objectives under Section 9 span three broad functions:

- ***planning and procurement*** (including for example, power system planning, demand and resource adequacy forecasting, and procurement of supply, capacity, storage and ancillary services);
- ***system operation and reliability*** (directing the operation of the IESO-controlled grid under agreements with transmitters, establishing and enforcing reliability standards); and
- ***market facilitation*** (supporting the operation of a competitive electricity market and carrying out settlements).

Section 10 of the MAEA adds duties to be carried out by IESO Nova Scotia, including integrated resource planning, competitive procurements, and transmission interconnection studies.¹⁵

The MAEA provides two separate cost recovery pathways. Under Section 29, IESO Nova Scotia submits its proposed revenue requirement and fees to the NSEB at least 90 days before each fiscal year. It may not establish or change fees without NSEB approval, and the previous year's fees remain in effect until new fees are approved, unless the NSEB orders otherwise. Under Section 30, energy resource supply contract costs are instead recovered through a mechanism established by the NSEB, with the public utilities connected to the IESO grid collecting the amounts from ratepayers and remitting them to IESO Nova Scotia.¹⁶ The application is brought under subsection 29(1)¹⁷ and, accordingly, is limited to the recovery of IESO Nova Scotia's own revenue requirement.

¹⁴ More Access to Energy Act. SNS 2024, c 2, Sch B. Section 29; NSEB. Matter M13007. IESO Nova Scotia Fee Recovery Mechanism Application. July 31st, 2026. Pages 3 and 7 of 48.

¹⁵ More Access to Energy Act. SNS 2024, c 2, Sch B. Sections 2, 9, 10, and 13.

¹⁶ Ibid. Sections 29 and 30.

¹⁷ NSEB. Matter M13007. IESO Nova Scotia Fee Recovery Mechanism Application. July 31st, 2026. Pages 3 and 9 of 48.

4.2 Current mandate under Phase 1

Under Phase 1, which is currently in effect, IESO Nova Scotia is responsible for system planning, energy resource procurement, and interconnection functions. Responsibility for system operation and dispatch, together with ownership of the OATT, remains with NS Power and will transfer to IESO Nova Scotia under Phase 2 upon proclamation of the corresponding sections of the MAEA.¹⁸ The provisions that would give IESO Nova Scotia its system operation mandate, its responsibility for transmission and ancillary services tariffs, and the licensing regime have not yet been proclaimed.¹⁹

4.3 Potential evolution under Phase 2

The MAEA fixes no date for proclaiming the Phase 2 provisions, which come into force only upon proclamation by the Governor in Council. It does, however, require that any ministerial orders transferring NS Power's positions, employees, assets and obligations to IESO Nova Scotia be made, and take effect, no later than May 1st, 2028. Beyond system operation, Phase 2 would affect fee recovery in two ways. First, IESO Nova Scotia would take over administration of the existing OATT and apply to the NSEB for approval of new transmission and ancillary services tariffs. The NSEB would set these tariffs based on the combined revenue requirements of IESO Nova Scotia and the transmitters, allowing IESO Nova Scotia's own costs to be reflected in the tariff. Second, any party moving electricity into, through or out of the IESO-controlled grid would require a licence. Combined with the ability of wholesale customers to buy from competitive suppliers, this may expand the number of market participants beyond the current five LSEs.²⁰

IESO Nova Scotia has committed to re-evaluate its fee recovery mechanism, including whether tariffs under the OATT are an appropriate vehicle for fee recovery, once it reaches Phase 2 steady state operation.²¹ This staged evolution of IESO Nova Scotia's mandate is central to LEI's assessment in Section 5, as several elements of the proposed mechanism that are reasonable on an interim basis may warrant revisiting once Phase 2 is implemented, notably the cost allocation, billing determinant and recovery vehicles as discussed in Sections 5.2 to 5.4.

¹⁸ Ibid. Pages 4, 6 and 16 of 48.

¹⁹ IESO Nova Scotia. *Responses to Small Business Advocate (SBA) Information Requests. IR-4*. September 22nd, 2026; IESO Nova Scotia. *Responses to London Economics International LLC (LEI) Information Requests. IR-2, Attachment 3*. September 22nd, 2026. See also More Access to Energy Act. SNS 2024, c 2, Sch B. Consolidated to April 9th, 2026. Proclamation note following Section 106.

²⁰ Ibid. Subsections 35(1), 35(7) and 89(2), and Sections 79, 83, 94 and 106.

²¹ NSEB. Matter M13007. IESO Nova Scotia Fee Recovery Mechanism Application. July 31st, 2026. Pages 16 and 23 of 48.

5 Reasonableness review for proposed recovery of IESO Nova Scotia's revenue requirement

This section assesses the reasonableness of IESO Nova Scotia's fee recovery proposal. Specifically, it presents the results of LEI's review of the following aspects:

- i. IESO Nova Scotia's revenue requirement components (e.g., review of fixed vs. variable components);
- ii. Allocation of revenue requirement to the five LSEs based on load served (in MWh);
- iii. Flat monthly fee (as opposed to charging based on MW capacity or MWh usage);
- iv. Recovery mechanism, i.e., direct monthly invoicing of five LSEs (as opposed to other options such as amending the OATT administered by NS Power);
- v. True-up application options, i.e., lag of one year, performed via a separate compliance filing, vis-à-vis lag of two years, performed via the annual revenue requirement application; and
- vi. Fee calculation methodology.

5.1 Revenue requirement components

Per the fee recovery application, IESO Nova Scotia is currently responsible for system planning, energy resource procurement, and interconnection functions, but does not yet have operational control of the grid or ownership of the OATT.²² IESO Nova Scotia's 2026/27 revenue requirement components generally reflect the costs associated with the aforementioned functions (see Figure 3).

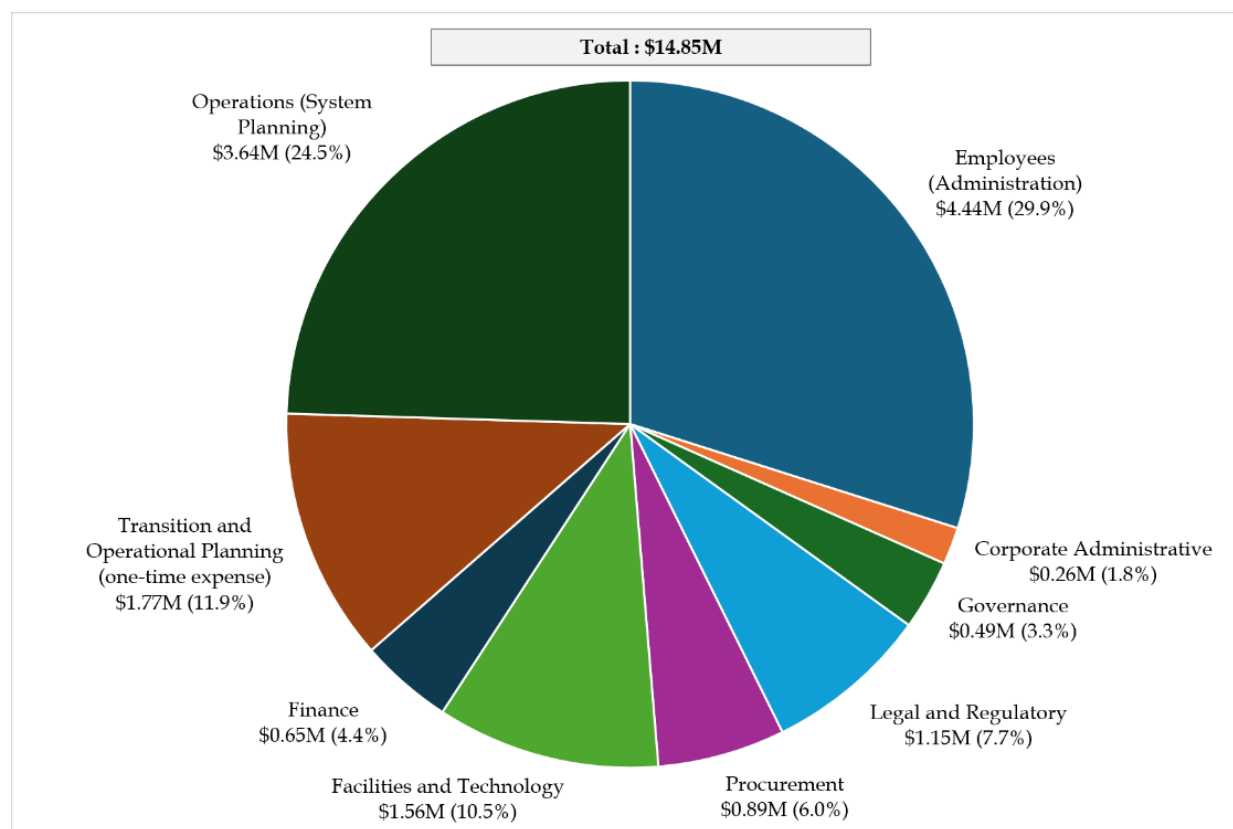
Each of IESO Nova Scotia's current revenue requirement components is generally fixed in nature.²³ As shown in Figure 3, employee costs, transition costs, and information technology ("IT") hardware costs form the vast majority (~77%) of the revenue requirement.²⁴ The rest of the revenue requirement is related to procurement and overhead costs. As such, none of the major cost components vary materially based on energy throughput in the transmission grid.

²² NSEB. Matter M13007. IESO Nova Scotia Fee Recovery Mechanism Application. July 31st, 2026. Page 4 of 48.

²³ As per the accounting definitions, fixed costs do not change with increases/decreases in units of production volume, while variable costs fluctuate with the volume of units of production. For ISOs, there are no units of production, but certain key ISO functions such as system operation depend on the size and complexity of the grid under management, rather than on the volume of energy (MWh) transmitted.

²⁴ Note that system planning costs primarily comprise salaries and wages for the technical staff.

Figure 3. IESO Nova Scotia's 2026/27 revenue requirement components



Source: NSEB. Matter M12663. In the matter of an application by the Nova Scotia Independent Energy System Operator for an Order or Orders made pursuant to Section 29 of the Act for the review of its proposed expenditure and revenue requirements and the fees it proposes to charge for the fiscal year between April 1, 2026 and March 31, 2027. January 20th, 2026.

Under standard accounting definitions, fixed costs do not change with increases or decreases in units of production volume, whereas variable costs fluctuate with units of production volume.²⁵ Most ISO costs are fixed in nature and do not vary with changes in MWh, MW, or customer counts.²⁶ ISOs recover their own costs primarily through MWh/MW charges to be consistent with cost causation principles.²⁷ LEI expects IESO Nova Scotia's cost components to remain generally fixed in nature even as it assumes additional responsibilities under the MAEA (see Section 4), including directing the operation of the transmission grid and maintaining grid reliability. System operation costs may vary with the size of the grid under management, such that an ISO managing a larger grid would incur higher system operation costs than a smaller ISO such as IESO Nova Scotia. For any particular ISO, however, system operation costs would not vary materially or proportionately with fluctuations in energy throughput on the grid.

²⁵ Corporate Finance Institute. Fixed and Variable Costs. Published: September 18th, 2019.

²⁶ New York Independent System Operator. Rate Schedule 1 Study: Draft Report. May 2011. Page 35.

²⁷ Ibid.

5.2 Appropriateness of proposed cost allocation based on load

Cost causation is a key underlying principle to be considered when allocating revenue requirement. As discussed earlier in Section 3, cost causation holds that the costs of providing a service should be borne by customers whose actions give rise to those costs. Applying this principle generally requires identifying the driver of each cost component, and allocating it among customers in proportion to their estimated contribution to that driver.

While LEI agrees that MWh load is a reasonable way to allocate IESO Nova Scotia's revenue requirement to transmission customers, the application does not include a detailed cost allocation exercise. By contrast, other North American ISOs generally undertake a more granular allocation exercise, identifying the driver of key cost components, and assigning it to the customers whose actions primarily drive the cost.

Figure 4. Summary of cost allocation and rate design in other select North American ISOs

ISO	Fees/rates used for recovery of ISO revenue requirements/budget	Who pays	Allocators used
IESO	- Domestic usage fee - Export usage fee	- Domestic fee – Ontario load customers - Export fee – Exporting market participants	- DOM: 100% direct allocation to domestic customers - O&A: organization-wide mix of costs for domestic and export - TWh: energy usage mix for domestic and export - SUM: division-wide mix of costs for domestic and export - HALF: equal allocation (50:50) for domestic and exports
AESO	- Portion of transmission tariff - Energy market trading charge - Renewable Electricity Program (REP) fees - Load settlement fees	- Transmission tariff – Grid users (load, generation and import/export) - Trading charge – Wholesale pool buyers and sellers - REP fees – REP generators / procurement applicants - Load settlement – Distribution owners and settlement agents	- Direct cost allocation, where possible - Direct cost allocation ratios for corporate services - Activity-based analysis for IT - Staff count for office leases
NYISO	- Rate Schedule 1 charge on withdrawals - Rate Schedule 1 charge on injections	- Withdrawals – Load, exports and wheel-through customers - Injections – Generators and imports	- Direct cost allocation, where possible - For indirect/shared costs: - Annual budget charge split 72% withdrawals / 28% injections, fixed in the tariff until a new study warrants a change 50:50 split for capacity market administering costs
ISO-NE	- Schedule 1: Scheduling, System Control & Dispatch Service - Schedule 2: Energy Administration Service - Schedule 3: Reliability Administration Service	- Schedule 1 – Network and point-to-point transmission customers - Schedule 2 – Wholesale market participants settled by ISO-NE - Schedule 3 – Load, exporters and nonmarket transmission customers	- Direct cost allocation, where possible - Indirect/shared cost allocation based on the proportion of direct cost allocation
PJM	- Schedule 9-1: Control Area Administration Service - Schedule 9-2: Financial Transmission Rights Administration Service - Schedule 9-3: Market Support Service - Schedule 9-4: Capacity Resource and Obligation Management Service - Schedule 9-PJMSettlement: PJM Settlement, Inc. Administrative Services	- Schedule 9-1 – Transmission customers - Schedule 9-2 – FTR participants - Schedule 9-3 – Energy market and transmission participants - Schedule 9-4 – LSEs and capacity resource owners - PJM Settlement – Invoiced accounts (68%) and Schedule 9-1 to 9-4 users (32%)	- Direct cost allocation, where possible - Indirect/shared cost allocation based on the proportion of direct cost allocation

Sources: Rate filings, budget documents, business plans.

As summarized in Figure 4, the ISOs reviewed recover their revenue requirements through several service-specific charges rather than a single undifferentiated fee: (i) PJM and ISO-NE apply separate tariff schedules for each administrative service; (ii) the AESO applies distinct charges for transmission, energy market trading, renewable energy program administration, and load settlement; and (iii) the IESO and NYISO differentiate between domestic and export usage and between withdrawals and injections, respectively.

In each case, costs are allocated directly to the function or customer class that causes them wherever practicable, with indirect and shared/overhead costs typically allocated based on the resulting direct-cost proportions. This approach aligns each charge more closely with the activities/functions that give rise to the underlying costs, instead of charging a single, uniform fee.

For IESO Nova Scotia, the absence of a function-level cost allocation exercise is reasonable at this stage, given that its current mandate is limited to system planning, energy resource procurement, and interconnection functions, and does not extend to operational control of the transmission grid. However, there is merit in performing a more granular cost allocation exercise as IESO Nova Scotia assumes additional responsibilities under the MAEA. An illustrative cost allocation methodology is described in the text box below.

Illustrative granular cost allocation methodology

Utilizing a granular cost allocation approach, the illustrative steps would be as follows:

- Allocate all direct costs to each function, i.e., system planning, energy resource procurement, and interconnection.
- If direct costs relate only to interconnection functions, indirect/overhead cost components (such as legal, regulatory, governance and administrative costs) can be allocated to procurement and system planning using a mix of approaches.
- The indirect cost allocation approaches can include allocation based on proportion of direct cost allocation where appropriate, and 50:50 allocation if a cost component is assessed to be equally beneficial to all functions.

Activity-based costing (“ABC”) is a common cost allocation method, practiced by multiple ISOs, that assigns overhead and indirect costs to products or services directly based on the underlying activities/cost drivers. As such, it provides a more accurate picture of product/service provision compared to traditional costing systems, particularly when overhead costs account for a large share of total costs.

A granular allocation would allow the treatment of exports to be addressed explicitly. Certain functions, such as energy resource procurement, are undertaken primarily for the benefit of domestic customers. Export volumes are currently immaterial, and Nova Scotia remains a net importer; however, their treatment in the allocation would become more significant if export activity increases.²⁸

²⁸ Canada Energy Regulator. Provincial and Territorial Energy Profiles – Nova Scotia. Accessed September 2026.

Nova Scotia has signalled an intention to expand electricity exports in the near future. For instance, the Province's Wind West initiative is expressly export-led, and the Province has identified new export revenues as one of its central objectives.²⁹ The initiative has also been advanced federally as part of an Atlantic energy strategy.³⁰ Wind West seeks to leverage and connect more than 60 GW of wind power potential in Nova Scotia, and more across Atlantic Canada.³¹ For context, Nova Scotia's current installed capacity is ~3 GW.³² The Province anticipates that offshore wind output would supply markets in Québec, Ontario, and potentially the northeastern US.³³

As such, implementing an approach that utilizes a more granular cost allocation exercise in the near future may be sensible. From a regulatory efficiency perspective, it may be reasonable for the Board to direct IESO Nova Scotia to perform a granular cost allocation exercise as soon as its Phase 2 mandate is implemented, instead of scheduling a fee recovery assessment proceeding again (after IESO Nova Scotia reaches Phase 2 steady state).

5.3 Is a flat monthly fee charged to each LSE reasonable?

IESO Nova Scotia has proposed a flat monthly fee to be charged to each LSE, primarily based on the following reasons:^{34,35}

- **Revenue predictability and stability:** a fixed charge recovers the forecast revenue requirement evenly with constant monthly cash flow, insulated from forecast risk, seasonal swings, weather, and other exogenous factors;
- **Costs are fixed with no identifiable driver:** core costs are largely fixed and evenly spread through the year, and bear no clear relationship to peak load or energy volume;
- **Small system:** Nova Scotia's small, low-diversity system makes any MW/MWh determinant more variable and exposed to a single large load, weather, or economic shifts; and
- **Phase 1 mandate and administrative simplicity:** peak load (MW) is tied to OATT transmission recovery, which IESO Nova Scotia does not yet own or operate.

Rate structures are designed to balance several important objectives, including cost recovery, fairness, economic efficiency, and customer price signals. In practice, achieving these objectives

²⁹ Government of Nova Scotia. Premier's Statement on Offshore Wind Update. June 26th, 2026.

³⁰ Government of Canada. Major Projects Office. Atlantic Energy Strategy - Wind West. Accessed August 2026.

³¹ Ibid.

³² Government of Nova Scotia. Nova Scotia Electricity Fact Sheet. Accessed on September 8th, 2026.

³³ Government of Nova Scotia. Offshore Wind. Accessed August 2026.

³⁴ NSEB. Matter M13007. IESO Nova Scotia Fee Recovery Mechanism Application. July 31st, 2026.

³⁵ NSEB. Matter M13007. Appendix 2 - IESO Enduring Fee Recovery Mechanism. FTI Recommendation. July 17th, 2026.

typically requires some trade-offs. ISO charges are generally a small proportion of total electricity costs, and do not play a meaningful role in driving price signals.³⁶

LEI generally agrees that an interim flat monthly fee is well suited to fully recover IESO Nova Scotia's revenue requirement, for the reasons specified above, such as:

- Fairness and cost causation principles: flat monthly fees for LSEs were devised based on load-based allocation, i.e., the fees are proportional to the volume of load served by the LSEs. As such, LEI believes this is a reasonable interim measure, until IESO Nova Scotia assumes responsibilities associated with the operation of the grid;
- Revenue certainty, as LSEs are charged flat fees; and
- Administrative simplicity associated with invoicing a small group of LSEs.

Although a flat fee is a reasonable interim measure, flat fees levied on five pre-determined LSEs may not capture all transmission customers. As discussed in Section 5.2, exports are one such category, and their share of total load may increase over time. Further, as acknowledged in the fee application, a Licensed Retail Supplier ("LRS") is another.³⁷ While adjustments of this nature may be made at the time of the true-up, this would become increasingly complex if the number of LSEs and other transmission customers increases. The Town of Lunenburg's electric utility illustrates a related issue, as outlined in the text box below.

Example: Town of Lunenburg

Like the other municipal utilities, the Town of Lunenburg is a wholesale customer under the Electricity Act and falls within the definition of an LSE. It is nonetheless excluded from the proposed mechanism because it is not an accredited market participant.

IESO Nova Scotia identified the fee-paying LSEs by reference to the NS Power System Operator's list of accredited market participants, on which the other four municipal utilities appear. Because the Town of Lunenburg buys all its electricity services from NS Power as a single bundled package, its load is counted as part of NS Power's share under the proposed allocation.

The Town's load is not immaterial relative to the other municipal utilities. The illustrative NS Power bill impact model prepared by IESO Nova Scotia forecasts roughly 28,000-29,000 MWh of 2027 sales to the Town, which exceeds the combined load of the Town of Mahone Bay and Riverport Electric Light Commission (roughly 24,000 MWh).

³⁶ For example, in Ontario, the IESO's usage fee is ~\$1.45 per MWh for 2026 (2025 rates applied on an interim basis), which is ~1% of the all-in cost of electricity in the province of ~\$140 per MWh (after factoring in Ontario Electricity Rebate) for residential customers. Source: IESO. *Usage Fees*. Accessed October 2026.

³⁷ IESO Nova Scotia notes that a Renewable to Retail ("RtR") LRS is expected to begin providing electricity to its customers in December 2026. IESO Nova Scotia has proposed to apply adjustments to the allocation, potentially during the true-up, depending on the LRS's commercial operation start date. IESO Nova Scotia expects the RtR LRS to account for approximately 3.5% of total Nova Scotia load once fully operational, reducing NS Power's share from approximately 98.6% to 95.1%. Existing LSEs would be credited, and the LRS charged retroactively, likely through the next revenue requirement application following the LRS becoming operational. Source: IESO Nova Scotia. *Responses to Industrial Group (IG) Information Requests*. IR-5. September 22nd, 2026.

This example illustrates how identifying fee payers from a fixed list of accredited market participants, rather than by their use of the transmission system, can lead to similarly situated customers being treated differently. A potential usage-based fee charged to all transmission customers in Phase 2 would avoid this as each customer would pay in proportion to its use of the system.

Sources: NS Power. *Accredited Market Participants*. May 17th, 2023; IESO Nova Scotia. *Responses to Nova Scotia Energy Board (NSEB) Information Requests. IR-5*. September 22nd, 2026; IESO Nova Scotia. *Responses to Industrial Group (IG) Information Requests. IR-1, Attachment 1*. September 22nd, 2026; Nova Scotia Energy Board. *Matter M13007. Appendix 3 – Fee calculation model*. July 31st, 2026.

As such, a MW or MWh based fee is a more economically efficient way of recovering revenue requirement over the long term.³⁸ Once Phase 2 is implemented, LEI recommends closely evaluating a primarily MW or MWh based fee charged to all transmission users/customers.³⁹ This would also be consistent with cost causation principles, and has significant regulatory precedent: all six ISOs benchmarked by FTI recover their core costs from load on a MW or MWh basis, as shown in Table 1 of FTI's ISO Cost Recovery Mechanism Jurisdictional Scan.⁴⁰

Further, as discussed in the following section, the OATT may be a more appropriate avenue for revenue recovery as IESO Nova Scotia assumes Phase 2 responsibilities.

5.4 Is the proposed recovery mechanism (direct invoicing vis-à-vis other options) appropriate?

For recovering its costs, IESO Nova Scotia (based on FTI recommendations) proposed four potential mechanisms, grouped into two OATT-based processes and two direct charge processes:

- (i) introducing a new schedule in the OATT;
- (ii) embedding costs in the transmission revenue requirement recovered under the OATT;
- (iii) levying a custom direct charge on the relevant market participants outside of the OATT; and

³⁸ While IESO Nova Scotia's costs do not vary with short-term energy throughput, over the long term they grow with the size and use of the system it manages. A usage-based fee therefore aligns each customer's payment with its contribution to that long-run cost driver.

³⁹ Under NS Power's OATT, Transmission Customers are typically charged based on Reserved Capacity. A Transmission Customer reserves capacity in advance by requesting a specified amount of transmission capacity between two designated points for a specified period, subject to acceptance by the Transmission Provider (NS Power in this case). Reserved Capacity is defined as "the maximum amount of capacity and energy that the Transmission Provider agrees to transmit for the Transmission Customer" and expressed in MWs. Source: Nova Scotia Power. *Open Access Transmission Tariff*. As approved by the UARB May 31st, 2005, as amended June 10th, 2016. Sections 1.48, 13.2, 13.7(c) and 17; Schedules 7 and 8.

⁴⁰ NSEB. Matter M13007. Appendix 1 – ISO Cost Recovery Mechanism Jurisdictional Scan. FTI Recommendation. May 5th, 2026. Page 11 (Table 1). See also Table 4.

(iv) charging the entire revenue requirement to NS Power, which would then allocate a portion of the costs to the other market participants, consistent with the EfficiencyOne model.⁴¹

FTI evaluated these options against five criteria: *(i) set-up costs; (ii) administrative simplicity; (iii) flexibility for future changes; (iv) revenue stability; and (v) economic principles.*⁴²

Applying these criteria, FTI recommended the custom direct charge, i.e., option (iii), which IESO Nova Scotia has adopted as its proposed mechanism. FTI concluded that the OATT-based options would entail potentially high set-up costs, as they would require extensive coordination with NS Power for as long as NS Power retains ownership of the OATT, and that subsequent changes to the mechanism would be tied to the timing and cadence of OATT and general rate application proceedings. FTI also noted that the OATT's existing billing determinants, which are based on coincident peak load and firm reservation capacity, would expose IESO Nova Scotia to under- or over-recovery of its revenue requirement. FTI assessed the economic principles criterion to be effectively neutral across all four options, as the fees are small relative to other electricity cost components and are therefore unlikely to distort behaviour.⁴³

In assessing whether direct invoicing is preferable to an OATT-based mechanism, it is useful to consider the purpose of the OATT. The OATT document and associated schedules set out the terms, conditions, and rates under which a transmission provider offers non-discriminatory access to its transmission system to all eligible customers. In Nova Scotia, one of the principal reasons for establishing the OATT was to provide entities other than NS Power, notably the municipal utilities, with open access to NS Power's transmission grid.⁴⁴ The municipal utilities and intertie traders currently take transmission service and pay transmission-related charges to NS Power under the existing OATT schedules.⁴⁵ The OATT is therefore the established vehicle for levying transmission-related charges on users of the transmission system in the province.

In LEI's view, FTI's evaluation overstates the administrative burden of an OATT-based mechanism and understates its flexibility. Recovering IESO Nova Scotia's revenue requirement through the OATT would initially require adding new schedule(s) and potentially minor amendments to the OATT document. For example, the main OATT document could be amended

⁴¹ EfficiencyOne is an independent, non-profit organization that holds the exclusive franchise for energy efficiency and conservation services in Nova Scotia. Its costs are recovered through charges billed to NS Power, which in turn allocates a portion of these costs to the municipal utilities. Source: Nova Scotia Power. Efficiency One. Accessed September 2026.

⁴² NSEB. Matter M13007. Appendix 2 - IESO Enduring Fee Recovery Mechanism. FTI Recommendation. July 17th, 2026. Sections 3 and 4.

⁴³ NSEB. Matter M13007. IESO Nova Scotia Fee Recovery Mechanism Application. July 31st, 2026. Pages 20-26 of 48.

⁴⁴ Electricity Act. S.N.S. 2004, c. 25. Section 3. The Act permitted wholesale customers, defined to include the municipal electric utilities, to purchase electricity from any competitive supplier, and required NS Power to file for approval an open access transmission tariff ensuring open and non-discriminatory access to wholesale customers. NS Power's OATT was approved by the Nova Scotia Utility and Review Board on May 31st, 2005. See NSUARB. Decision 2005 NSUARB 50. May 31st, 2005.

⁴⁵ Nova Scotia Power Inc. Open Access Transmission Tariff. Schedules 1 to 10.

to establish the obligation of applicable transmission customers to pay charges for IESO Nova Scotia's services and cross-reference the relevant new schedule(s). Those schedules could specify the services covered, billing determinants and applicable rates, with subsequent amendments primarily updating rates and effective dates to reflect revised approved revenue requirements.

Moreover, NS Power already invoices the municipal utilities for other transmission-related charges under the OATT. As such, the billing infrastructure needed to collect an IESO Nova Scotia charge from the same entities is largely in place. The administrative burden would reduce over the longer term, when IESO Nova Scotia takes ownership of the OATT.

With respect to flexibility, the jurisdictional evidence summarized in Section 5.2 indicates that OATT-style schedules can be tailored to specific functions. PJM and ISO-NE, for example, recover their administrative costs through separate tariff schedules for each service. An OATT-based mechanism is therefore capable of accommodating function-specific charges as IESO Nova Scotia's responsibilities expand.

More fundamentally, an OATT-based mechanism would align the recovery of IESO Nova Scotia's costs with the nature of its responsibilities. IESO Nova Scotia's functions are primarily associated with the transmission grid, and it is therefore economically efficient⁴⁶ for users of the transmission system to face the charges that fund those functions, even though most of these charges would ultimately be passed through to the LSEs and their ratepayers. As the OATT already exists, the resulting charges would sit alongside the other transmission-related charges that transmission customers already pay.

LEI has also considered the consolidated direct charge option based on the EfficiencyOne model, under which the entire revenue requirement would be billed to NS Power for reallocation to the other market participants. This option has merits: it would build on an established cost recovery framework, involve a single consolidated invoice, and provide the same revenue stability as the proposed mechanism, with an annual true-up cadence that aligns with the existing demand side management ("DSM") rider. However, it would outsource cost allocation to NS Power, and require ongoing coordination between IESO Nova Scotia and NS Power. This approach also has limited precedent among other North American ISOs. In addition, based on the stakeholder feedback filed in response to LEI IR-2 and IESO Nova Scotia's response to NSEB IR-10, LEI understands that some stakeholders, notably NS Power and the Industrial Group, expressed opposition to this option during the stakeholder engagement process.^{47,48} LEI therefore agrees with FTI that option (iv) is not a preferable option.

On balance, LEI considers the proposed direct monthly invoicing of the five LSEs to be a reasonable interim mechanism. It is administratively simple, provides revenue stability, and

⁴⁶ Recovering these costs from transmission users follows cost causation: the price of transmission service reflects its full cost, so users weigh that full cost when deciding how to use the grid.

⁴⁷ NSEB. Matter M13007. IESO Nova Scotia Fee Recovery Mechanism Application. July 31st, 2026. Page 26 of 48.

⁴⁸ IESO Nova Scotia. *Responses to London Economics International LLC (LEI) Information Requests. IR-2*. September 22nd, 2026, and IESO Nova Scotia. *Responses to Nova Scotia Energy Board (NSEB) Information Requests. IR-10*. September 22nd, 2026.

avoids dependence on NS Power at a time when IESO Nova Scotia neither owns the OATT nor operates the grid. However, the principal considerations weighing against an OATT-based mechanism, i.e., the coordination required with NS Power and the cadence of OATT proceedings, largely fall away once ownership of the OATT and system operation responsibilities transfer to IESO Nova Scotia under Phase 2 of the MAEA transition. At that point, recovery through OATT schedules merits serious consideration as the enduring mechanism.

IESO Nova Scotia has committed to re-evaluating its fee recovery mechanism once it reaches Phase 2 steady state operation.⁴⁹ LEI recommends that this re-evaluation, including express consideration of recovery through OATT schedules, form part of the first revenue requirement application (instead of another fee recovery assessment proceeding) following the Phase 2 transfer, recognizing that the appropriate timing will depend on when the relevant sections of the MAEA are proclaimed in force.

5.5 Appropriateness of the proposed true-up options

IESO Nova Scotia's proposed revenue requirement true-up builds on the revenue requirement Deferral and Variance Mechanism ("DVM") proposed in its 2026/27 revenue requirement application, which records variances between forecast and actual revenue requirements for disposition in future fee applications.

The fee recovery application presents two true-up options. Under Option 1, revenue requirement variances from a given fiscal year ("FY1") would be incorporated into the revenue requirement application two years later ("FY3"), as FY1 actuals are not known until after the FY2 revenue requirement application has been filed. Per FTT's jurisdictional research, this two-year lag is a common true-up cadence among North American ISOs.⁵⁰

Under Option 2, IESO Nova Scotia's preferred option, over- or under-recovered amounts from FY1 would be refunded to or collected from market participants approximately one year earlier, through a separate compliance filing made after the NSEB issues its decision on the FY2 revenue requirement application. This option is premised on the NSEB's decision being issued in July, or later, by which time IESO Nova Scotia expects to have audited financial statements confirming FY1 actual expenditures.

IESO Nova Scotia cites two benefits of the shorter lag: (i) any over-recovery would be refunded to LSEs earlier; and (ii) earlier collection of any under-recovery would reduce carrying costs. Option 2 would, however, require the NSEB to grant preliminary approval of the variances ahead of a full prudency review, which would take place in the subsequent revenue requirement application. Under both options, the true-up amount would be allocated to LSEs based on actual FY1 loads.⁵¹

⁴⁹NSEB. *Matter M13007. IESO Nova Scotia Fee Recovery Mechanism Application*. July 31st, 2026. Page 16 of 48.

⁵⁰ IESO Nova Scotia. *Fee Recovery Mechanism Application*. July 31st, 2026. Pages 29-31.

⁵¹ Ibid.

Illustratively, LEI estimates that Option 1 would incur incremental carrying costs of ~\$8,000 on the audited 2025/26 over-recovery of \$342,927.⁵² The financial benefit of advancing the true-up by one year, whether through earlier refunds to LSEs or reduced carrying costs, is therefore modest. Further, while it is likely that the incremental carrying costs for Option 1 may increase over time as IESO Nova Scotia's revenue requirement increases, the application does not weigh the benefits of Option 2 against the incremental costs of compliance filings. Preparing, reviewing, and processing additional filings is likely to impose incremental costs.⁵³

Given the relatively small size of the revenue requirement, the financial benefits of Option 2 are minimal, if any, considering the carrying costs and costs/regulatory burden associated with the compliance filings. As such, LEI recommends Option 1.

Option 1 incorporates revenue requirement variances into the regular revenue requirement application, which avoids the need for separate compliance filings and the associated preparation, review and processing costs for IESO Nova Scotia, the NSEB and stakeholders. If revenue requirement variances become significant and/or carrying costs rise, for example as the revenue requirement grows with the expansion of IESO Nova Scotia's mandate under Phase 2 of the MAEA transition, Option 2 could be considered in a future revenue requirement application.

5.6 Review of fee calculation methodology

IESO Nova Scotia has provided its fee calculation model as Appendix 3 to the fee recovery application (prepared by Power Advisory). Figure 5 illustrates the mechanics of that model. The starting point is the annual revenue requirement for each of the two fiscal years covered by the application, i.e., \$5.3 million for 2025/26 and \$14.9 million for 2026/27. These amounts are adjusted for the 2025/26 true-up over-recovery of \$0.3 million, which reflects the difference between IESO Nova Scotia's actual and forecast revenue requirements for that year. The combined fees to be recovered from the five LSEs therefore amount to ~\$19.8 million.

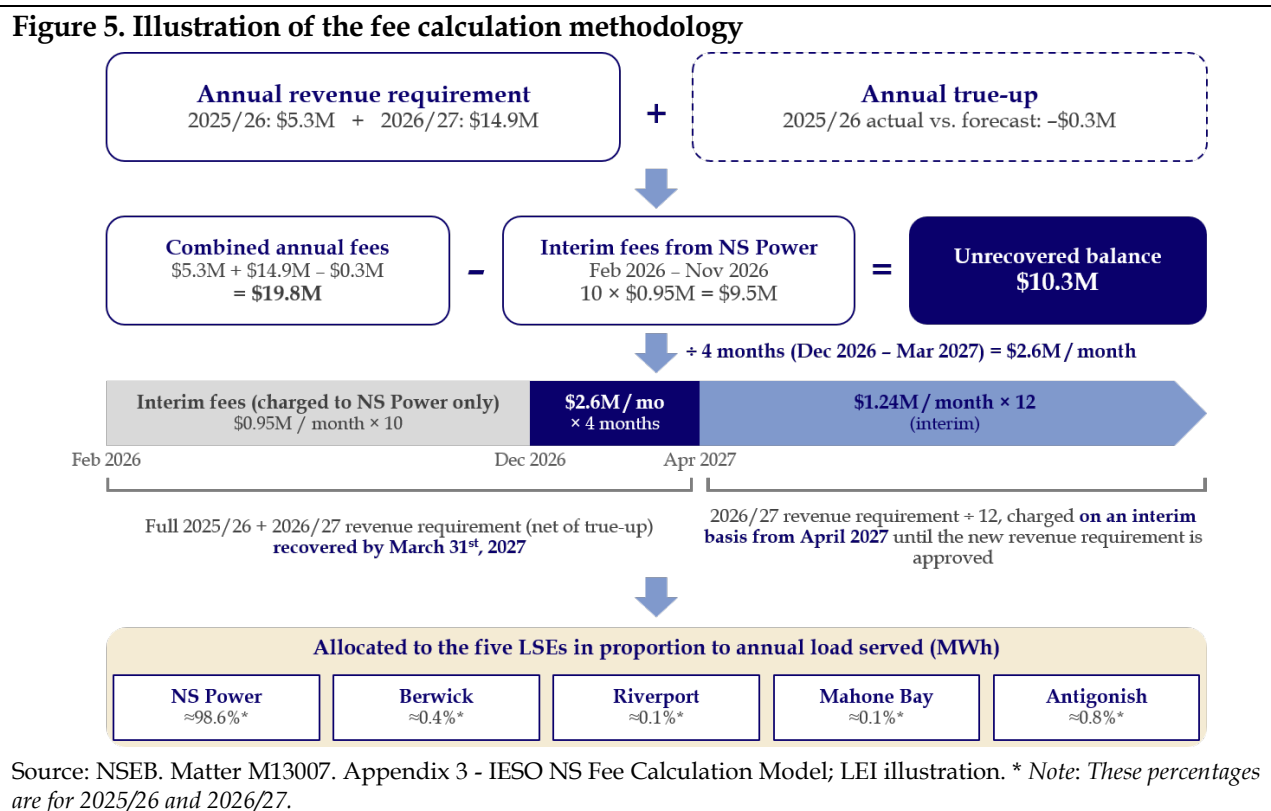
From this amount, IESO Nova Scotia deducts the interim fees already collected from NS Power, i.e., ten monthly payments of \$0.95 million between February 2026 and November 2026, or \$9.5 million in total. The resulting unrecovered balance of approximately \$10.3 million is divided over the four months from December 2026 to March 2027, which produces a monthly fee of

⁵² Based on the 2025/26 audited over-recovery of \$342,927 reported in response to SBA IR-5, LEI assumed that the over-recovery accrued evenly over the fiscal year (~\$28,577 per month) and applied a carrying cost rate of 2.32% per annum, as reported in response to MEU IR-1 and IG IR-11. LEI has assumed an additional year of lag for Option 1 when calculating the incremental carrying costs. Employing this method, LEI found that the estimated carrying costs for Option 1 to be ~\$15,000, compared to ~\$7,000 for Option 2.

⁵³ In response to IRs from the Consumer Advocate, IESO Nova Scotia indicated that the compliance filing would be limited in scope, providing *"the FY2 fee calculation model with one adjustment: the over or under recovery amount based on FY1's revenue requirement actuals,"* and that *"no NSEB process regarding the review of the variance and corresponding refund or charge via the fees would be required at that time."*⁵³ It also confirmed that the compliance filing would *"not be subject to a hearing process; prudence review deferred to FY3 application process."* While this limits the administrative burden of the filing itself, it means that variances would be refunded or collected before they are reviewed for prudence, with any corrections deferred to a subsequent proceeding. Source: IESO Nova Scotia. *Responses to Consumer Advocate (CA) Information Requests. IR-2(f).* September 22nd, 2026. Pages 1 and 3 of 3.

approximately \$2.6 million. The monthly amount is allocated among the five LSEs in proportion to the annual load each serves (in MWh). For both 2025/26 and 2026/27, this results in approximately 98.6% to NS Power (for unrecovered balance, net of \$9.5 million), 0.8% to the Town of Antigonish, 0.4% to Berwick Electric Commission, 0.1% to the Town of Mahone Bay, and 0.1% to Riverport Electric Light Commission.⁵⁴

The recovery timeline at the bottom of Figure 5 sets out the resulting profile of monthly charges. The interim fees paid by NS Power run from February 2026 to November 2026, followed by four monthly charges of approximately \$2.6 million between December 2026 and March 2027, such that the full 2025/26 and 2026/27 revenue requirements, net of the true-up, are recovered by March 31st, 2027. Starting April 2027, IESO Nova Scotia would charge one-twelfth of the 2026/27 revenue requirement, i.e., approximately \$1.24 million per month, on an interim basis until a new revenue requirement is approved.



LEI considers the proposed fee calculation methodology to be reasonable. The inputs are traceable to the revenue requirement amounts set out in the application, the interim fees already collected from NS Power are credited against the amounts to be recovered, and the resulting monthly fees are allocated among the five LSEs in proportion to the load each serves.

⁵⁴ IESO Nova Scotia has clarified that NS Power's volumes in the model are aligned with IESO Nova Scotia's fiscal year. The 2025/26 volumes are drawn from NS Power's FAM reports for April 2025 to March 2026, and the 2026/27 volumes are drawn from NS Power's 2026–2027 general rate application load forecast for April 2026 to March 2027. Source: IESO Nova Scotia. *Responses to NSEB Information Requests. IR-13*. September 22nd, 2026. See also *Responses to Small Business Advocate (SBA) Information Requests. IR-10*. September 22nd, 2026.

6 Concluding remarks

LEI has assessed IESO Nova Scotia's fee recovery mechanism application against the rate design principles set out in Section 3, and in light of IESO Nova Scotia's current Phase 1 mandate described in Section 4.

Overall, LEI considers the proposed mechanism to be reasonable as an interim measure. A fixed monthly direct charge to the five LSEs, allocated in proportion to load served, provides IESO Nova Scotia with revenue stability at an early stage of its operations, is administratively simple and transparent, and treats similarly situated LSEs consistently. Given that IESO Nova Scotia's costs are largely fixed and that ISO fees represent a small share of total electricity costs, the departure from a more granular cost allocation and the absence of usage-based (MW/MWh) rates are reasonable at this stage. The proposed fee calculation methodology is also reasonable. While both true-up options are capable of delivering full recovery of IESO Nova Scotia's actual costs, LEI recommends Option 1 on the grounds of regulatory efficiency. Option 1 incorporates variances into the annual revenue requirement application, avoiding separate compliance filings and allowing variances to be reviewed for prudence before they are refunded or collected.

Several features of the proposed mechanism are, however, better suited to IESO Nova Scotia's current mandate than to its enduring role. Once ownership of the OATT and responsibility for system operation transfer to IESO Nova Scotia under Phase 2 of the MAEA transition, the considerations that currently favour a flat direct charge to a fixed set of LSEs largely fall away, and cost causation and non-discrimination among all transmission customers become more important. LEI's key recommendations are summarized below.

- **Granular cost allocation (Section 5.2):** the Board may wish to direct IESO Nova Scotia to undertake a granular function-level cost allocation exercise, including explicit treatment of exports, once its Phase 2 mandate is implemented, rather than scheduling a further fee recovery proceeding.
- **Billing determinant (Section 5.3):** following the Phase 2 transition, LEI recommends that IESO Nova Scotia evaluate a MW- or MWh-based fee charged to all transmission customers, which is practiced across surveyed ISOs, and would be consistent with cost causation and more enduring as a rate design.
- **Recovery mechanism (Section 5.4):** direct monthly invoicing of the five LSEs is a reasonable interim mechanism. LEI recommends that IESO Nova Scotia's committed re-evaluation of the mechanism, including express consideration of recovery through OATT schedules, form part of the first revenue requirement application following the Phase 2 transfer.
- **True-up (Section 5.5):** LEI recommends Option 1, under which prior-year variances are incorporated into the revenue requirement application with a two-year lag. This is on the grounds of regulatory efficiency, avoiding separate compliance filings. Option 2 may be considered if variances become significant and/or carrying costs rise as IESO Nova Scotia's revenue requirement grows.
- **Fee calculation methodology (Section 5.6):** LEI considers the methodology reasonable and has no recommended changes.

7 Appendix A – List of works consulted

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