THE BRETON LAW GROUP

James R. Gogan
Direct Dial: (902) 563-5920
E-Mail: jim@bretonlawgroup.com

File No. 41736-18

November 13, 2015

Nova Scotia Utility & Review Board
PO Box 1692, Unit "M"
Halifax, Nova Scotia
B3J 3S3

Attention: Doreen Friis, Regulatory Affairs Officer / Clerk

Dear Ms. Friis:

Re: M06733 - EfficiencyOne – Financing Demand Side Management
Grant Thornton Report – November 2015

Attached please find the report prepared by Grant Thornton on behalf of EfficiencyOne with respect to the external financing of Demand Side Management activities.

The Board will recall the financing of DSM was raised in the course of the hearing in this matter at various stages of evidence, testimony and closing submissions:

1. NSUARB (Pronko) IR-1 Asked for the impact of commercial lending on the amortization of 2016-2018;

2. On June 16, 2015, Mr. Macdonald was questioned on the status of commercial amortization discussions (Transcript, June 16, 2015, pp. 571-573);

3. Nova Scotia Department of Energy, in its Closing Submissions, stated:

> 44. The Province recognizes that there is a cost associated with deferrals, and this also needs be taken into account. During questioning by the Board Chair, E1's witnesses were asked about the possibility of financing measures outside of NSPI's rate base, and E1's Mr. MacDonald agreed to engage in discussions relating to this.

In its decision in this matter, the Board recognized the concerns raised by various stakeholders and directed EfficiencyOne to explore more cost effective avenues to finance deferrals:

> [91] The DOE raised the issue of deferral and amortization of certain of the DSM costs, noting it is permitted by the PUA. The DOE indicated that a decision on deferral should generally be made at the time the DSM budget is set. **As noted in questioning of the El panel by the Board, the Board does not see any logical reason why a deferred amount should be put in NSPI's rate base at a cost of 7.78% when bank financing is available to qualified borrowers at approximately 3%. El is directed to enter into discussions with the DOE and with commercial lenders to see if there is a less expensive way to finance any deferrals and whether that is authorized by the PUA. The Board would be much more inclined to order a deferral if it did not attract a financing cost of 7.78%.**

In its Compliance Filing, EfficiencyOne confirmed it had engaged Grant Thornton to conduct industry research and report with respect to financing Demand Side Management.

In Order M06733, the Board ordered:

> 7. E1 is to file the results of its review regarding possible financing of deferrals by November 16, 2015.

EfficiencyOne notes the report on financing DSM prepared by Grant Thornton was approached at a high level using a market sounding methodology. The report indicates an appetite for external financing of DSM with the backstopping of payments by NS Power. Although the report was developed with $102,000,000 of DSM financed, there remains the possibility that the $35,000,000 of 2015 DSM may be financed at a similar interest rate with the possibility of a lower upfront cost. The timing of financing 2015 DSM activities may be completed as early as the end of Q1 2016, dependent on the timing of the Board's directive.

In summary, this report indicates that financing of the DSM investment for 2015 and/or for the 2016 to 2018 period would be an option subject to adoption of the commercial terms set out in the report. In particular, externally financing DSM as contemplated in the report will require cooperation and coordination with NS Power to satisfy the commercial terms of an external financing agreement.

EfficiencyOne looks forward to further direction from the Board in this matter.

THE BRETON LAW GROUP

James R. Gogan

cc. S. Bruce Outhouse, Board Counsel
M06733 Participants