Nova Scotia Utility and Review Board

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Via Email: brian.curry@nspower.ca

Dear Mr. Curry:

M07151 - Nova Scotia Power Inc. - DSM Cost Allocation and Recovery (E-R-15)

The Board's letter of December 3, 2015 directed NSPI to provide details regarding specific cost recovery and accounting treatment of the following DSM components:

1) 2015 DSM programs
2) 2016 to 2018 DSM programs
3) 2014 Rate-Smoothing Adjustment ("RSA")
4) 2014 DCRR ("DSM Cost Recovery Rider") amounts currently in rates
5) 2013 Balance Adjustment
6) 2014 Balance Adjustment
7) True-up proposals

The Board's letter also established a timeline for participation by interested parties, which was later amended on January 21 and 22, 2016. NSPI's update was filed on December 18, 2015; IRs to NSPI were filed on January 11, 2016; and NSPI's responses to IRs were filed on February 1, 2016. Submissions by parties were filed on February 16, 2016 and NSPI's Reply Submission was filed on February 23, 2016.

During this time period, the Province enacted the *Electricity Plan Implementation (2015) Act ("EPIA")* which extended the 3-year DSM contractual term by one year to include 2019, and limited the DSM expenditures for that year to $34,050,000. The *EPIA* came into force on December 18, 2015. In addition, the *EPIA* established a Rate Stability Period and imposed a restriction on NSPI's ability to file an application for a change in general rates. If it chose to do so, NSPI was required to make that filing on or before April 30, 2016 and the period to be covered under the application must extend to January 1, 2020.

On March 7, 2016 NSPI publicly announced[1] that "...it will not file a General Rate Application for the next three years. The utility is seeking only fuel cost adjustments at less than the projected rate of inflation through to the end of 2019".

NSPI's Filing Dated December 18, 2015

In its December 18, 2015 letter, NSPI stated:

1) One-eighth of the 2015 program cost will be expensed in its 2016 operating costs.
2) The 2016 DSM program costs will be absorbed in existing rates and thereby expensed in its 2016 operating costs. However, a determination has not been made regarding cost recovery of the 2017 to 2019 DSM costs and NSPI requested a deferral of that determination until the April 30th deadline for filing a GRA or until June 30, 2016 if it did not file a GRA.
3) Three options were proposed for addressing the 2014 RSA:
    - Reallocating DSM services
    - True-up at the next GRA
    - True-up as part of the 2017-2019 Base Cost of Fuel ("BCF") filing with recovery over a 3-year period.
4) The 2013 BA has been applied to the 2015 DSM program funding.
5) The 2014 BA should be applied to the 2016 DSM program as directed by the Board and allocated in accordance with 2014 collections and expenditures.
6) Regarding annual program cost true-ups, NSPI supported a methodology similar to that used when the DCRR was in place, but proposed that the appropriate term for rebalancing should be the DSM contract period, rather than on an annual basis. NSPI proposed three options for consideration:
    - Cost of Service allocation -- i.e. allocate DSM funds in accordance with COS and true-up actual expenditures against this allocation
    - Traditional actual DSM alignment -- i.e. allocate DSM funds in accordance with the E1 program budget even though funds are not collected on this basis
    - No allocation -- do not track or true-up by class until DSM and non-DSM components can be segregated by class during the next GRA.

Participant Submissions

Submissions were received from the Consumer Advocate ("CA"), the Small Business Advocate ("SBA"), the Industrial Group, and E1.

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[1] http://www.nspower.ca/en/home/newsroom/news-releases/nova-scotia-power-brings-forward-rate-stability.aspx

None of the parties disagreed with NSPI's proposal to absorb the 2016 program costs or the 2016 portion of the 2015 DSM costs into operations under existing rates during 2016.

Regarding the 2017 to 2019 program costs, the CA strongly objected to any attempt by NSPI to apply for additional rate revenue to recover those costs and maintained that existing rates are sufficient to cover DSM expenditures for 2016, 2017, and 2018, as well as one-eighth of the deferred 2015 DSM expenditures plus interest.

The SBA supported allocation of 2016 DSM costs among rate classes in accordance with E1's budget after applying the 25/75 split[2] (i.e. the traditional DSM allocation).

The Industrial Group stated that "...DSM costs are part of general rates and NSPI is required to file for any changes to its general rates for the next three years by April 30, 2016...NSPI is required to evaluate by the end of April what its non-fuel revenues and expenses will be for the next three years and this would include DSM." The Industrial Group recommended that the Board not approve NSPI's requested conditional extension to June 30th for determination of the 2017-2019 DSM cost recovery.

E1 supported NSPI's Cost of Service approach for allocating 2015 to 2018 costs, stating that the past cost allocation methodology discourages participation on a rate class level by increasing rates for the rate classes as participation increases.

Regarding cost allocation for Enabling Strategies expenditures, this issue remained unresolved. The Industrial Group suggested that NSPI and E1's consultant, Elenchus, appear to differ on the appropriate allocator to use as a proxy. The Industrial Group supported NSPI's proposal, suggesting that it is most aligned with cost causation based on direct experience in Nova Scotia, and would also minimize costs related to tracking.

NSPI's proposal is to directly assign expenditures over $100,000 to a rate class that clearly benefits from that expenditure, to allocate costs based on historical averages to specific rate classes when the expenditures can be so attributed, and to allocate remaining expenditures using the 25/75 split.

The CA supported the Elenchus approach, which attempts to minimize the potential for the residential class being in effect "double charged"; i.e. once for identifiable expenses and then again for a share of general expenses related to Enabling Strategies. The Elenchus Memorandum stated:

> If most Enabling Strategies costs could have been directly assigned, the exposure to this possible double counting was minimal. However, with such a small proportion directly assigned, and that amount heavily skewed to one rate class, it is a significant concern.

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[2] 25% of total expenditures are assumed to be System Benefit Costs and are allocated among rate classes using the COS methodology; 75% of total expenditures are assumed to be Participating Class Benefit Costs and are directly assigned to participating classes.

The Elenchus approach would also eliminate the cost of tracking Enabling Strategies invoices on the basis of rate class benefit.

In its submission, E1 stated that based on the 2012 Elenchus recommendation, E1 has been directly allocating the participant benefit portion of Enabling Strategies investments. However, based on analysis of additional data, the Elenchus Memorandum of May 2014 recommended allocating the entire participant portion of Enabling Strategies investments based on a rate class share of all program investment.

Regarding the Rate Smoothing Adjustment, none of the parties supported recovering the inter-class loans by adjusting planned DSM program expenditures among classes, but E1 and the Industrial Group supported recovery through a subsequent GRA or Base Cost of Fuel ("BCF") process. The Industrial Group suggested that absent a GRA, the BCF could be used as a "procedural vehicle" to recover the RSA over three years, as previously agreed.

The Board notes that in its Fuel Stability Plan ("FSP") Application (at p.96 of 99 in M07348), NSPI has adjusted the class stability balance in years 2016-2018 for the inter-class RSA loans.

Regarding true-ups, the SBA suggested that a true-up mechanism should be applied against actual DSM costs for 2016 and annually thereafter. The Industrial Group agreed with NSPI's suggestion to true-up at the end of the contract period and accrue variances until the next GRA is held. E1 recommended adopting NSPI's proposal to true-up DSM costs after each 3-year period.

NSPI's Reply Submission dated Feb 23, 2016

In response to participant submissions, NSPI noted the following:

a) Program costs should be allocated in alignment with E1's budgets, then compared against actual DSM expenditures on an annual basis, and adjusted for class variances as a true-up mechanism during the next GRA, since there is no opportunity under current legislation to do this any sooner.
b) Regarding the rate smoothing adjustment, parties preferred that the RSA be settled by changes to rates, not by reallocation of DSM program expenditures. Therefore, NSPI proposed that the inter-class loan be incorporated as part of the 2017-2019 FSP.
c) Regarding Enabling Strategies, NSPI recommended approval of its methodology which would directly allocate costs when possible, and other costs would be allocated based on the rate class relative share of all program investments.

NSPI also requested confirmation that DSM costs for 2016, including the amortized portion of 2015 costs, could be treated as an NSPI operating expense in 2016.

In addition, NSPI again requested approval to defer determination of its position regarding 2017-2018 DSM costs until the earlier of the company filing a GRA or June 30, 2016.

Board Decision

The Board understands that 2013 and 2014 Balance Adjustments have been rolled into the 2015 and 2016 DSM programs, respectively, and accepts that approach.

Regarding treatment of the 2015 DSM program costs, which are being amortized over 8 years, the Board approves NSPI's proposal to recover one-eighth of those costs as 2016 operating costs under existing rates. However, the remaining seven-eighths is to be recovered in accordance with reduced principal and interest financing arrangements to be concluded between E1 and its lender, as described in a letter from E1 Counsel James R. Gogan dated February 16, 2016 (M06733).

Regarding the 2016 to 2019 DSM program costs, the Board approves NSPI's proposal to treat the 2016 expenditures as operating costs under existing rates.

Regarding accounting treatment and recovery of the 2017, 2018, and 2019 DSM expenditures, NSPI's request to defer determination until "the earlier of the Company filing a GRA or June 30, 2016" is denied.

The Board's Order in Matter M06733 directed NSPI to file its proposed accounting treatment and cost recovery for 2015 DSM programs and 2016-18 DSM programs by November 30, 2015. NSPI's November 30th filing did not include those details. This directive was repeated in the Board's letter of December 3, 2015. Although NSPI responded regarding the 2015 and 2016 expenditures, it chose not to do so regarding the 2017, 2018, and 2019 DSM expenditures and requested approval to defer determination until "the earlier of the Company filing a GRA or June 30, 2016".

The *EPIA* requires NSPI to file an application for a change in its general rates on or before April 30, 2016 if it chooses to do so. Subject to that condition, the *EPIA* also restricts the Board from granting a change in NSPI's general rates to take effect before January 1, 2020. Since DSM costs are not fuel costs, they are classed as other costs under the GRA. As previously noted, on March 7, 2016 NSPI publicly announced that it will not file a GRA for the next three years and only seeks fuel cost adjustments below the projected rate of inflation through to the end of 2019. Therefore, the Board considers that NSPI has decided to absorb 2017 to 2019 DSM costs within existing rates.

Furthermore, the Board's DSM Decision (M06733) noted that the following funds continue to be collected in current rates even though they are no longer required for those purposes, and could be available to fund annual DSM costs:

Fixed cost recovery amortization	$15 to $16 million
Section 21 tax deferral	$18.5 million

2008/09 DSM amortization	$1.1 million
TOTAL	$34.6 to $35.6 million

Regarding the Rate Smoothing Adjustment, the Board notes that parties favoured recovery of these inter-class loans through rates rather than by adjusting approved DSM class expenditures. NSPI has proposed, and in fact, has included recovery of these loans within its Fuel Stability Plan over the 2016 to 2018 period. The Board understands that this proposal does not increase revenue requirement but basically adjusts rates among the affected classes. Therefore, the Board approves this approach for recovery of the RSA, pending any further adjustment arising from the FSP/BCF proceeding (M07348).

Regarding true-ups, several parties favoured adjusting any required variances at the end of the DSM contract term. Although the SBA preferred to have variances corrected annually, legislation precludes rate adjustments prior to January 1, 2020. The Board approves NSPI's proposal to annually track comparisons of DSM cost recoveries to DSM expenditures, and then adjusting any required variances during the next GRA.

On the issue of Enabling Strategies cost allocations, if a significantly large expenditure is clearly focused on potential benefits to a specific rate class or classes, then it appears reasonable to allocate those costs to that specific rate class or classes. Expenditures over $100,000 were suggested by NSPI as amounts that should come under this provision. The Board approves this change; however, recognizing the concern expressed by Elenchus, E1, and the CA regarding potential skewed allocations or double charging related to the residential class, the Board directs that the participant portion (75%) of other Enabling Strategies expenditures be allocated based on a rate class share of program investments, as recommended by Elenchus.

Yours truly,

Peter W. Gurnham, Q.C., Chair

Kulvinder S. Dhillon, P.Eng., Member

Roberta J. Clarke, Q.C., Member

c. S. Bruce Outhouse, Q.C., Board Counsel
Stephen MacDonald, EfficiencyOne
M06733 Participants

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