Nova Scotia POWER
An Emera Company

PO Box 910 ● Halifax, Nova Scotia ● Canada ● B3J 2W5

December 18, 2015

Doreen Friis
Regulatory Affairs Officer/Clerk
Nova Scotia Utility and Review Board
1601 Lower Water Street, 3rd Floor
P.O. Box 1692, Unit "M"
Halifax, NS B3J 3S3

Re: Nova Scotia Power Inc. – DSM Cost Recovery – M07151/E-R-15

Dear Ms. Friis:

On November 30, 2015, in accordance with the Board's Order dated October 30, 2015, Nova Scotia Power Inc. (NS Power or Company) submitted its proposed cost recovery and accounting treatment for 2016 DSM costs to the Utility and Review Board (UARB or Board). At that time, the Company also requested additional time from the Board to make a determination on its cost recovery and accounting treatment for the remainder of the DSM contract period in light of legislative changes arising from the provincial electricity plan titled Our Electricity Future Nova Scotia's Electricity Plan 2015-2040 (the Plan).

In a letter dated December 3, 2015 in the above referenced matter, the Board requested NS Power provide additional detail regarding its specific cost recovery or accounting treatment proposed for the various DSM components provided below:

(a) 2015 DSM programs;
(b) 2016-18 DSM programs;
(c) 2014 rate-smoothing adjustment;
(d) 2014 DCRR amounts currently in rates;
(e) 2013 Balance Adjustment;
(f) 2014 Balance Adjustment;
(g) true-up proposals

The UARB provided a timetable for intervenor questions, submissions and NS Power reply. As indicated in the Company's November 30th submission, the parties to the proceeding have not reached a consensus proposal. The Company has identified several different means for cost recovery and accounting treatment provided in detail below. For the current UARB approved DSM contract, the Company views the approved DSM quantum of $102.2 million as a flow through expense to be fully recovered from customers. This is in accordance with section 79 M (5) of the Public Utilities Act.[1]

NS Power also sought clarity from UARB staff on the contents of the UARB's letter and provides the following comments on the items in the Board's December 3, 2015 letter.

2015 DSM Amounts

In 2015, legislative changes restructured the way that DSM is delivered to NS Power's customers as well as the period costs are recovered. DSM program costs were determined by legislation and recovery of the associated costs was deferred over an eight year period. For 2015, DSM was established at $35 million plus any remaining DSM balance from 2013.[2] NS Power will expense the 2016 amortization amount in its 2016 operating costs.

2016-2018 DSM Program Costs

On November 10, 2015, following the changes to Nova Scotia's electricity policy, the Company announced that it will not apply for a General Rate Application for 2016. This means that for the 2016 period NS Power is forecasting that it can absorb the associated 2015 and 2016 DSM program costs into existing rates.

The Company has not yet determined whether it can absorb DSM amounts for years beyond 2016 in existing rates. In accordance with the Legislation, NS Power must make a determination on whether it requires an increase to general rates by April 30, 2016.[3]

[1] Nova Scotia Public Utilities Act, section 79 M (5).
[2] *Electricity Efficiency and Conservation Restructuring (2014) Act*, section 79-1 (a)
[3] *Electricity Plan Implementation (2015) Act*. 1st Reading, December 1, 2015, 62nd General Assembly of Nova Scotia, Session 2. Retrieved from http://nslegislature.ca/legc/bills/62nd_2nd/1st_read/b141.htm

As NS Power has not determined whether it will file a general rate application for 2017 through 2019, it proposes to defer a determination until the earlier of NS Power filing a General Rate Application or June 30, 2016.

2014 Rate Smoothing Adjustment

In its 2014 DSM Cost Recovery Rider Application, Efficiency One's (E1) predecessor, Efficiency Nova Scotia Corporation (ENSC), realized that the Small General and Large General classes would experience revenue requirement increases of 3.55% and 10.84%, respectively, over the 2013 class revenue requirements. In approving the settlement agreement, the UARB approved an adjustment to the application that allowed classes from which DSM funding relative to budget was over recovered to loan their over recovered amounts to classes that were under recovered. This reduced the increase to the 2014 DSM Cost Recovery Rider (DCRR) that would have otherwise been experienced by the under recovered classes. The under recovered classes agreed to pay the rate smoothing adjustment amounts back with interest over the 2015 to 2017 period. The 2015 DSM Settlement Agreement, signed by representatives of several of the lending classes did not oppose deferring repayment of the loan with details to be addressed with the filing of the 2016-2018 DSM plan.

Given certain changes in the cost recovery model and the fact that NS Power is not seeking a general rate increase for 2016, the ability to rebalance through the 2016 to 2018 DSM plan has been hampered. However, there are a number of options available for the affected classes to consider in settling this inter-class imbalance, including:

1. Assuming there is a budget allocation to individual customer classes during the E1 contract period; E1 could attempt to remedy the class imbalance during the contract period by reallocating DSM services (and the associated expenses) during this period. Although this is an option, NS Power would not be supportive if such reallocation materially increased the overall cost of achieving its energy savings.
2. True up the class imbalances at the time of NS Power's next general rate application.
3. True up the class imbalances as part of the 2017 through 2019 base cost of fuel filing in a similar manner to how such imbalances would be remedied via a general rate application. A potential benefit of this option is that the imbalance amounts would be remedied over a three year period.

Variations of the above are also available and, unless such options materially impact the ability of E1 to achieve its targets, NS Power would support a solution as agreed upon by the affected classes.

DCRR Amounts currently in rates

This item is addressed above in comments re: 2016 – 2018 DSM Program Costs

2013 and 2014 Balance Adjustments

As referenced above, the 2013 amount has been applied to DSM funding in 2015. NS Power suggests that the 2014 imbalance amounts should be dealt with in a similar manner. However, the costs were collected through the DCRR in accordance with the ENSC budget for 2014. These costs can be compared to the actual 2014 DSM spend to determine the variance between the actual recovery and the actual expenditure. In accordance with the Board's Decision, this variance should be attributed to the 2016 DSM program and could be allocated such that classes receive their actual over or under recovery via 2016 programs. An estimated variance analysis by class is provided in **Appendix B**

True Up Proposals

Although true ups do not have a direct impact on NS Power, the Company supports the manner in which true ups were managed when DSM was recovered through a rate rider. Essentially, a customer class rate rider amount was based on E1's budget for that class and the true up would be based on the budget amount as compared to the actual amount expended by E1 on that class during the relevant period. However, as an exception, NS Power would propose that the relevant period on a go forward basis would be the contract period, as opposed to rebalancing every year. This would allow E1 to develop the most cost effective program for each class over the whole contract period. At the end of such period, imbalances could either be worked into the next DSM contract period or rebalanced separately during rate applications.

The issue for 2015 and 2016 is that there is no specific class rate rider nor is there a similar allocation for DSM in NS Power's general rates during this period. As such, there is no agreed upon starting point for allocating a budget to each class and, as such, nothing to compare to actual expenditures that would result in the need for a true up between classes.

Although there is no specific class budget in NS Power's rates, the funds are being collected from customer classes and transferred to E1 to provide services back to the respective classes. The significance of potentially allocating the collected funds to the customer classes is that it determines, similar to past years, any imbalances between what a customer class pays or is allocated, and the amount of DSM benefit it receives.

In order to further examine this issue, the Company presents three alternatives for consideration.

- Cost of Service Allocation
- Actual DSM alignment
- No Allocation

As cost allocation is primarily an issue between customer classes, NS Power does not have a strong preference as to which methodology is utilized and it looks forward to receiving further input from customer representatives as part of the established UARB process. The exception to this last comment is that NS Power would not be supportive of a true up mechanism that would materially impact E1's ability to meet its energy savings goals in a cost effective manner.

To assist in assessing the various options, **Appendix A** contains additional information relating to cost of service allocation, E1 budget allocation and imbalance amounts.

Cost of Service Allocation

This option would allocate DSM funds among customer classes in the same manner that NS Power allocates earnings above its approved range of return – allocate based on NS Power's cost of service. Any true ups would be based on this allocation as compared to actual class expenditures (subject to the 75% class cost / 25% system cost allocation). The rationale for this approach is that customer representatives had recently agreed to the similar allocation[4] and it could be considered a reasonable proxy for how the funds being allocated to DSM were collected. This was NS Power's recommendation in its letter of October 30, 2015.

Traditional DSM Allocation

This proposal would allocate DSM funds in accordance with E1's DSM program budget. Once the DSM program has been delivered, the actual costs would be compared to assess any imbalance. Although this aligns with how DSM costs were allocated under the rate rider formula, there is a fundamental difference as the amounts are not actually being collected from customers on the basis of the E1 budget. Although the initial allocation is flawed, it does set the starting point for E1 to be guided in delivering its programs (i.e. E1 has obligations when it varies from budget by a certain amount.)

No Allocation

There is also merit in considering whether any initial budget should be set or imbalance calculated during this period. Until the next general rate application, DSM will not have a specific allocation in rates and, as such, DSM could be treated like all other non-fuel expenses.

Furthermore, NS Power does not have a Board approved revenue requirement or Board approved cost of service applicable to 2016 operations. The "absorption" of the 2016 DSM expenses into the Company's 2016 cost structure without a rate increase means that the cost of the DSM program is being funded by savings in other areas of NS Power's revenue requirement and changes in sales levels from the assumptions applied in the 2013-2014 GRA Decision. The effect of this is that until another GRA is completed, it is not possible to actually segregate bundled customer rates into their DSM and non-DSM components by class. Given this, there is merit in considering that, for 2016 forward until the next GRA, DSM variances by class not be tracked and trued-up. The expectation that E1 would continue to execute its undertaking in accordance with the 2016-2018 DSM Program approval issued by the Board would help mitigate some potential inequities of this approach.

[4] 2014 FAM Deferral Hearing M-06475, Settlement Agreement, clause 3.

Although NS Power has set out three primary options, there are many additional variations that could be considered. It is worthy to note that NS Power is not directly impacted by the method of allocation or true up mechanism. As such, NS Power would be supportive of implementing most any allocation policy, as long as it does not have a material detrimental impact on E1's ability to cost effectively deliver energy savings.

Absent a settlement agreement with customer class representatives and E1, NS Power is hopeful that the above information will help guide the process established by the Board to ultimately determine cost allocation and true up mechanisms. If requested to do so by the classes, the Company is willing to work with the class representatives, in a manner similar to the 2014 FAM Deferral procedure, to provide scenarios and information such that the parties can determine what is in the best interest of all classes.

In terms of cost recovery, NS Power will absorb the applicable portion of 2015 costs and 2016 DSM program costs into existing rates in 2016.

NS Power looks forward to participating in the Board process. The Company requests that the Board acknowledge;

1. applicable 2015 and 2016 DSM cost recovery is appropriately recovered as an operating expense in 2016.
2. 2017-2019 cost recovery is to be provided at the earlier of NS Power's next GRA Application or June 30, 2016.
3. that while NS Power has made a costs allocation recommendation, consensus was not reached and therefore interested parties are to file comments or modifications to the cost allocation proposal such that the Company may engage with stakeholders on their formal comments in January 2016.

Yours truly,

David Landrigan
General Manager Legal & Regulatory Affairs

c. Tim Wood
DSM Intervenors

Rate Class	2016 Revenues Including FAM Riders	2016 DSM Costs apportioned to rate classes using DSM cost allocation methodology: 2016-2018 DSM Plan Amount	2016-2018 DSM Plan % of Total Revenue	2015 DSM Plan Amortized over 8 years Amount	2015 DSM Plan Amortized over 8 years % of Total Revenue	2010 and 2014 Balance Adjustment Amount[1]	2010 and 2014 Balance Adjustment % of Total Revenue	Inter-class DSM loan from 2014 repaid over 2016-2018 Amount	Inter-class DSM loan from 2014 repaid over 2016-2018 % of Total Revenue	Total Amount	Total % of Total Revenue	2016 DSM Costs apportioned to rate classes using class relative shares in rate base from 2014 COSS: Class Relative Shares in utilization of Rate Base	Apportionment of DSM Costs based on Ratebase utilization	Apportioned DSM Costs as a percentage of total class revenue	Variance between two approaches: Amount	% of total Class Revenue
Residential	$707,735,493	$17,620,067	2.5%	$3,976,113	0.6%	-$5,482,870	-0.8%		0.0%	$16,113,310	2.3%	**54.3%**	$16,746,138	2.4%	$632,828	0.1%
Small General	$38,106,818	$1,516,677	4.0%	$229,155	0.6%	-$587,450	-1.5%	$233,088	0.6%	$1,391,470	3.7%	**2.7%**	$835,952	2.2%	-$555,518	-1.5%
General Demand	$325,324,922	$8,327,463	2.6%	$786,695	0.2%	-$1,272,809	-0.4%	-$1,198,960	-0.4%	$6,642,390	2.0%	**24.1%**	$7,431,969	2.3%	$789,580	0.2%
Large General	$45,141,052	$1,697,501	3.8%	$442,708	1.0%	-$783,267	-1.7%	$1,291,856	2.9%	$2,648,798	5.9%	**3.1%**	$951,130	2.1%	-$1,697,669	-3.8%
Small Industrial	$32,357,753	$724,374	2.2%	$137,763	0.4%	-$293,725	-0.9%	-$199,206	-0.6%	$369,205	1.1%	**2.4%**	$744,842	2.3%	$375,636	1.2%
Medium Industrial	$52,625,292	$978,345	1.9%	$185,074	0.4%	-$293,725	-0.6%	-$106,373	-0.2%	$763,320	1.5%	**4.3%**	$1,316,170	2.5%	$552,850	1.1%
Large Industrial	$66,570,928	$1,612,368	2.4%	$256,255	0.4%	$587,450	0.9%		0.0%	$2,456,073	3.7%	**5.9%**	$1,822,582	2.7%	-$633,491	-1.0%
Municipal	$20,492,071	$589,693	2.9%	$71,607	0.3%	$293,725	1.4%		0.0%	$955,025	4.7%	**1.7%**	$524,850	2.6%	-$430,175	-2.1%
Unmetered	$23,289,886	$111,547	0.5%	$55,370	0.2%	-$685,359	-2.9%	-$20,405	-0.1%	-$538,848	-2.3%	**1.5%**	$463,122	2.0%	$1,001,970	4.3%
Gen. Repl. / Load Foll.	$472,800	$23,987	5.1%	$3,592	0.8%	$0	0.0%		0.0%	$27,579	5.8%	**NA**	**NA**	**NA**	-$27,579	-5.8%
1P-RTP	$559,455	$6,385	1.1%		0.0%	$0	0.0%		0.0%	$6,385	1.1%	**NA**	**NA**	**NA**	-$6,385	-1.1%
Shore Power	$259,514	$1,593	0.6%	$454	0.2%	$0	0.0%		0.0%	$2,047	0.8%	**NA**	**NA**	**NA**	-$2,047	-0.8%
Total	**$1,312,935,984**	**$33,210,000**	**2.5%**	**$6,144,785**	**0.5%**	**-$8,518,030**	**-0.6%**	**$0**	**0.0%**	**$30,836,755**	**2.3%**	**100.0%**	**$30,836,755**	**2.3%**	**-$0**	**0.0%**

Footnote

(1) The total of $8,518,030 comes from E1 Nova Scotia's financial statement for the year ending 31, 2014. Allocation among rate classes is based on class balance adjustments for 2014 reported by E1 in Figure 5.1 - 2014 Rate Class Expenditures (unaudited) included in its Application of February 27, 2015. See Appendix B for details

2014 Rate Class Expenditure in millions of $ (unaudited)[1]				
Rate Class	2014 Budget Adjusted to UARB Compliance Filing	2014 YTD Expenditures	Variance	Relative Share
Residential	$26.2	$20.6	-$5.6	64.4%
Small General	$2.5	$1.9	-$0.6	6.9%
General Demand	$11.8	$10.5	-$1.3	14.9%
Large General	$2.4	$1.6	-$0.8	9.2%
Small Industrial	$0.9	$0.6	-$0.3	3.4%
Medium Industrial	$1.2	$0.9	-$0.3	3.4%
Large Industrial	$1.0	$1.6	$0.6	-6.9%
Municipal	$0.8	$1.1	$0.3	-3.4%
Unmetered	$0.7	$0.0	-$0.7	8.0%
Gen. Repl. / Load Foll.	$0.0	$0.0	$0.0	0.0%
1P-RTP	$0.0	$0.0	$0.0	0.0%
Shore Power	$0.0	$0.0	$0.0	0.0%
Total	**$47.5**	**$38.8**	**-$8.7**	**100.0%**

Footnote

(1) Source: Figure 5.1 - 2014 Rate Class Expenditure (unaudited), page 60, Evidence of EfficiencyOne as Holder of the Efficiency Nova Scotia Franchise, filed February 27, 2015