2015 M07151

E-R-15

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF: **THE *PUBLIC UTILITIES ACT***

- and -

IN THE MATTER OF **AN APPLICATION** by **Nova Scotia Power Incorporated** ("NSPI") for Approval of the DSM Cost Allocation and Recovery

INFORMATION REQUESTS

To:	Nova Scotia Power Inc.
From	Consumer Advocate
Responses due by:	January 25, 2016
Copies:	1 electronic copy – pdf searchable
Contact person:	John Merrick, Q.C. Consumer Advocate ***Merrick Jamieson Sterns Washington & Mahody*** 503-5475 Spring Garden Road Halifax, NS B3J 3T2 Tel: (902) 429-3123 Fax: (902) 429-3522 Email: jmerrick@mjswm.com

Issued at Halifax, Nova Scotia this 11th day of January, 2016.

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Doreen Friis, Regulatory Affairs Officer/Clerk

Request IR-1:

Please provide a rationale for using historical averages as part of the formula for allocating Enabling Strategies expenditures among rate classes as proposed in the 2016-2018 DSM Plan NS Power Cost Allocation Proposal dated October 30, 2015.

Request IR-2:

Did NS Power review the Memorandum (attached) to Julie-Ann Vincent, Efficiency Nova Scotia from Andrew Frank of Elenchus dated May 7, 2014 on the subject of Enabling Strategies Allocation prior to proposing how to allocate enabling strategies expenditures and specifically the memorandum's conclusion that "we (Elenchus) propose that an allocation of the Participant Benefit portion of Enabling Strategies on the basis of Program Benefits is more appropriate than the methodology proposed in February 2012." The methodology proposed in 2012 used historical averages as part of the cost allocation formula for Enabling Strategies expenditures.

Request IR-3:

Please explain exactly what historical data was used and how it was used in dollar terms to allocate Enabling Strategies expenditures by rate class in NSPI's proposed allocation of Enabling Strategies expenditures.

Request IR-4:

Please provide a calculation that shows the allocation of Enabling Strategies expenditures by rate class using the program benefits as a method for calculation enabling strategies as recommended by Elenchus in the May 7 Memorandum.

Request IR-5:

Please show the difference in allocation of Enabling Strategies expenditures by rate class of using NS Power's proposed allocation and that recommended by Elenchus.

Request IR-6:

On Page 3 of the Elenchus memo, the issue of double charging of expenditures assigned to a rate class is raised by Elenchus in the following paragraph.

> In principle, the entire amount of Enabling Strategies is intended to support or enable the entire amount of program benefits. Therefore, in the absence of a suitable direct allocation, one would reasonably allocate the entire amount of Enabling Strategies on the basis of all program benefits. Given that only a small proportion of enabling strategies spending can be identified, it raises the concern that rate classes which have more identifiable expenses *may in effect be double charged by being charged once for identifiable costs, and then again for a share of general expenses.* (italics added) 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.

(a) Please explain whether NS Power believes double charging is a significant concern and if not, why not?

Request IR-7:

The attached spreadsheet of showing coding to rate classes of Enabling Strategies expenditures was provided to G. Foote upon request by Matthew Davidson of Efficiency (e-mail also attached). This spreadsheet shows that the Bright Business Conference was coded to all rate classes (Line 4, Column B) rather to just BNI rate classes. In effect, residential ratepayers were charged with almost 50 per cent of the conference's cost based on the sector's share of program costs, for a program that did not address residential DSM.

(a) Did NSPI review the calculation of historical averages to determine whether Enabling Strategies expenditures were correctly coded to rate classes prior to submitting its proposal for cost allocation?

Request IR-8:

Please provide NS Power's assessment of which true-up method would allow the best alignment of DSM cost allocation by customer class with recovery of an equal amount by customer class and how this would be achieved.

Request IR-9:

Please provide an analysis of exactly how NS Power will be able to absorb 2016 DSM expenditures and the first year of amortized 2015 expenditures, including:

(a) The nature and magnitude in reductions in other areas of NS Power's revenue requirement, compared to the costs in the 2013-2014 GRA Decision.

(b) The changes in projected sales and revenues by customer class compared to the assumptions applied in the 2013-2014 GRA Decision.

Request IR-10:

Please explain any options that are available to NS Power to implement the Board's Decision that the "2014 DSM…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."

Request IR-11:

Please explain in more detail how a cost of service allocation would permit true-up of DSM expenditures, including the variance between 2014 DSM collection and allocation by customer class.

Request IR-12:

Would NSPI be seeking interest on post-2016 DSM expenditures, if it does not make a General Rate Application on June 30, 2016?

Request IR-13:

The December 15, 2018 submission proposes two methods for true-ups, “Cost of Service Allocation” and “Traditional DSM Allocation.”

(a) Please explain why NSPI does not include the option of using the “75% class cost/ 25% system cost allocation” for true-ups.

(b) Is the “Cost of Service Allocation” the same as the “system cost allocation” previously applied to 25% of DSM costs, total class revenues, or something else?

(c) Please provide the “Cost of Service Allocation” that NSPI would apply if it were asked to perform a true-up based on the most recent COSS.

(d) Is the “Traditional DSM Allocation” essentially the same as the “class cost” component of the 75/25 allocation?

Request IR-14:

Please clarify the “Cost of Service Allocation” option.

elenchus
34 King Street East, Suite 600
Toronto, Ontario, M5C 2X8
elenchus.ca

Memorandum

To: **Julie-Ann Vincent, Efficiency Nova Scotia**

From: **Andrew Frank**

Date: **May 7, 2014**

Re: **Enabling Strategies Allocation**

This memo is prepared in response to your requests to review our advice provided in February 2012 on the allocation of cost related to Enabling Strategies advice, as well as to review the sample of the direct allocations of invoices to rate classes. The first section will address the review of the invoice direct allocations while the second section will address the Enabling Strategies Cost Allocation recommendation updated based on the information gained from a year of experience.

1 Review of Direct Allocation of Enabling Strategies Invoices

We have reviewed a sample of invoices provided, being sure to examine some invoices which were assigned to each of the rate classes.

The sample turned up many invoices assigned to All Rate Classes. Costs observed included development-related IT costs, DSM planning, the website, and other organizational marketing and promotional activities. Every entry coded as All Rate Classes could be expected to impact more than one rate class, and appeared to have the potential to impact all rate classes.

Where invoices were assigned to individual rate classes, or where an apportionment was made between rate classes, all invoices reviewed appear to have been assigned to the appropriate rate classes, and in reasonable proportions where apportioned.

2 Review of Enabling Strategies Cost Allocation

In response to your request to review the Enabling Strategies allocation methodology, we have reviewed the recommendation provided by Elenchus in February 2012.

When Elenchus last provided advice on the allocation of Enabling Strategies in February, 2012 we advised the following.

> *Recommendation #2: Enabling Strategies costs should be allocated using the same System/ Participant Benefit approach that is used for other programs. Hence, 75% of costs of the Enabling Strategy would be allocated on the basis of the customer classes that are expected to benefit from the Enabling Strategy where those "participants" can be reasonably identified. For Enabling Strategies where it is not practical to identify the participating (or benefiting) customer classes, the Participant Benefit costs (75% of the costs of the Enabling Strategy) should be allocated on the basis of the proportional allocation of all other program costs to the customer classes.*

In evaluating the appropriateness of this methodology, we considered the System / Participant Benefit approach as well as the method for determining the participant benefit.

Elenchus has not seen any information to question the validity of the System / Participant Benefit approach for Enabling Strategies given the approved cost allocation methodology for Nova Scotia, and believes that it remains appropriate for the reasons set out in February 2012.

When performing an allocation of Participant Benefit, our first choice would be to perform a direct allocation if one is available. If a direct allocation does not exist, or is not practical, then we would consider an appropriate allocator to use as a proxy for the benefit derived by the rate class.

In evaluating the methodology for allocating the Participant Benefit, this advice was based on the expectation that the bulk of the Enabling Strategies expenditure would be directly attributable to identified rate classes; hence, most costs would be directly attributed to the benefitting rate class. The residual amount would be relatively small and could be reasonably allocated on the basis of all other program costs.

With 2 years elapsed and a full year of program history, ENSC now has information on the identified target classes for Enabling Strategies expenditures:

- 65% of expenditures were recorded as aimed at "All Rate Codes / Unknown";
- 26% were recorded as Residential;
- 6% were recorded as "BNI Overall" (non-Residential); and
- 1% was recorded to each of Small General, General, and Large General.

With the experience that 71% of expenditures are not directly related to an individual rate class, contrary to our original expectation, it is appropriate to revisit the previous recommendation.

The Residential class is very distinct from all other rate classes with more programs targeted just at it than any other rate class. It is also a distinct rate class in that there are commonalities among all residential customers, and a clear distinction from other rate classes. Allocation to other rate classes is difficult as programs and their enabling strategies tend to target energy uses which can be applicable to only a subset of customers in each of multiple rate classes. Therefore the allocation to allocation to rate classes other than Residential is very difficult to determine by means of a direct allocation.

In principle, the entire amount of Enabling Strategies is intended to support or enable the entire amount of program benefits. Therefore, in the absence of a suitable direct allocation, one would reasonably allocate the entire amount of Enabling Strategies on the basis of all program benefits. Given that only a small proportion of enabling strategies spending can be identified, it raises the concern that rate classes which have more identifiable expenses may in effect be double charged by being charged once for identifiable costs, and then again for a share of general expenses. 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.

In addition, the cost of tracking invoices on the basis of rate class benefit can be significant. If this permitted the direct allocation of most of the enabling strategies, or if the exercise were require for other reasons, this cost would be justified. However, it is our understanding that this exercise is performed exclusively for the purpose of Cost Allocation, and its effect to improve the accuracy of the Cost Allocation is questionable. Therefore, we do not believe it is warranted.

For this reason, we propose that an allocation of the Participant Benefit portion of Enabling Strategies on the basis of Program Benefits is more appropriate than the methodology proposed in February 2012.

---------- Original Message ----------
From: Matthew Davidson <MDavidson@efficiencyns.ca>
To: George Foote <gfoote@ns.sympatico.ca>
Date: November 3, 2015 at 9:55 AM
Subject: RE: FW: Summary of EfficiencyOne Perspectives on Cost Allocation

George,

The attached spreadsheet details how major enabling strategies activities are allocated to rate classes. It is by the application of these percentages to enabling strategies investment that the 26% noted in the memo is calculated. Please let me know if you have any questions or comments.

Thank You,

Matt

Matthew Davidson, B.Eng.

Technical Manager

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						Coding to Rate Classes					
Enabling Stategies Initiative	**All Rate Classes**	**All BNI Rate Classes**	**Residential**	**Small General**	**General**	**Large General**	**Small Industrial**	**Medium Industrial**	**Large Industrial**	**Municipal**	**Unmetered**
Bright Business Conference	100%										
Summer Tour and Homeshows			100%								
Habitat for Humanity - General	100%										
Habitat for Humanity - Residential Home Upgrades			100%								
Ecology Action Center - Save the Savings			63%	34%	3%						
Trade Partner Network Development			100%								
Organizational Marketing and Website Development	100%										
Nova Scotia Home Builders Support			100%								
Green Schools Initiative	100%										
IT Development Initiatives	100%										
Rate and Bill Development			12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	
DSM Plan Development Process	100%										
NSUARB Advocate/Consultants - Small Business Advocate				33.33%	33.33%		33.33%				
NSUARB Advocate/Consultants - Consumer Advocate			100%								
NSUARB Staff Consultants	100%										