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File No. 41736-30

February 16, 2016

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: M07151 - Nova Scotia Power Incorporated – NS Power Cost Allocation and Cost Recovery

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To follow, please find submissions on behalf of EfficiencyOne in relation to the above noted matter.

EfficiencyOne has reviewed the materials filed by Nova Scotia Power Inc. (NS Power), as well as its responses to IRs from Intervenors in this Proceeding. We appreciate the opportunity to provide the position of EfficiencyOne on this matter and offer the following comments.

Allocation of 2015-2018 Program Costs

EfficiencyOne supports the Cost of Service Allocation approach provided by NS Power for the allocation of 2015 to 2018 DSM costs. As indicated below, this approach, in EfficiencyOne's view, would: (a) be consistent with applicable legislation; (b) better reflect the growing acknowledgement of the many society-wide benefits of DSM; (c) better reflect NS Power's means of short-term cost recovery; (d) enhance EfficiencyOne's ability to meet energy and demand savings targets; and (e) provide greater rate stability for individual rate classes.

EfficiencyOne, a regulated utility under the *Public Utilities Act,*[1] provides NS Power with electricity efficiency and conservation activities, pursuant to an exclusive franchise granted by the Province of Nova Scotia. One important aim of these activities is to reduce the "amount of <u>electrical energy or capacity</u> that [NS Power] would otherwise be required to supply to its customers"[2] (emphasis added).

[1] *Public Utilities Act*, RSNS 1989, c 380 s 79G(2).
[2] *Ibid* at s 79A(b)(v).

The Cost of Service Allocation methodology aligns with this legislation by accounting for the energy aspect of DSM achievements along with DSM's effect in deferring system capacity.

Organizations across North America, and around the world, are contributing to the growing consensus that DSM activities provide numerous benefits to both DSM participants and non-participants in utility service areas undertaking DSM.[3] Many of these benefits are not recognized under standard cost-effectiveness tests such as the Total Resource Cost test.[4] Given this growing recognition of the society-wide benefits of DSM, it is reasonable to assume that a Cost of Service Allocation does not compromise the "beneficiary pays" principle of utility cost allocation.

In its December 18th filing, NS Power states:

> …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.[5]

This statement suggests it is not possible to use a traditional DSM allocation model to recover DSM investments by rate class until such time as NS Power undertakes the next GRA. NS Power acknowledges that an initial allocation based on a traditional DSM allocation methodology would be flawed,[6] as a result of the existing cost recovery mechanisms available to NS Power. EfficiencyOne submits that given this restriction in cost recovery mechanisms, a Cost of Service Allocation methodology would mitigate this issue.

A Cost of Service allocation methodology would also enhance Efficiency Nova Scotia's ability to achieve energy and demand savings targets. EfficiencyOne has previously submitted that the past cost allocation methodology discourages participation on a rate class level by increasing rates for rate classes as participation increases.[7]

Finally, a Cost of Service Allocation would likely reduce the volatility present in changing DSM allocators by rate class over time. Energy, demand and/or revenue requirement based allocations typically evolve more slowly than direct participant based allocators due to their dependence only on the energy and demand usage by rate class. This type of allocation would be better aligned with the broad cost recovery mechanisms NS Power will have available to it, such as adjustments delivered through a GRA.

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[3] International Energy Agency, *Capturing the Multiple Benefits of Energy Efficiency* (Paris: IEA, 2004).

[4] *Supra* note 1 and M06733 (E-ENS-R-15), *An Application pursuant to Subsection 79J(3) of the Public Utilities Act for Approval of the 2016-2018 Supply Agreement for Electricity Efficiency and Conservation Activities* (27 February 2015), Evidence of EfficiencyOne as Holder of the Efficiency Nova Scotia Franchise, Submitted to the Nova Scotia Utility and Review Board, at Appendix I, p 13.

[5] *Nova Scotia Power Inc. – DSM Cost Recovery – M07151/E-R-15* (18 December 2015), Submission to the Nova Scotia Utility and Review Board at p 6.

[6] *Ibid*.

[7] M06733/E-ENS-R-15, Industrial Group Information Requests, *The Public Utilities Act, RSNS 1989, c 30, as amended and An Application pursuant to Subsection 79J(3) of the Public Utilities Act for Approval of the 2016-2018 Supply Agreement for Electricity Efficiency and Conservation Activities* (19 May 2015) at Request IR-3.

True Up Mechanisms Going Forward

EfficiencyOne supports NS Power's proposal to true up after each three-year contract rather than on an annual basis. EfficiencyOne submits that it would be premature to calculate true ups on an annual basis because rate class investment variances that appear early-on in a three-year contract period may be offset later in the contract-period through trends in participation or mitigating actions taken by EfficiencyOne. EfficiencyOne acknowledges that it cannot entirely control rate class investment in all cases. However, it would be more feasible, and result in less customer disruption, to undertake mitigating efforts over a three-year contract period than on an annual basis. In addition, EfficiencyOne notes that NS Power will likely not have a rate mechanism in place through which it can recover true up amounts for several years.

Allocation of Enabling Strategies

As a result of an Elenchus recommendation made in 2012, EfficiencyOne directly allocates the participant benefit portion of Enabling Strategies investments.[8]

In its October 30th filing to the Board,[9] NS Power suggests that Enabling Strategies investments be allocated based on a 75/25 split, as exists for DSM programs, subject to two exceptions:

1. where a particular Enabling Strategy benefits individual rate classes and costs exceed $100,000, NS Power suggests a direct allocation to the benefiting rate classes; and
2. where the cost of a particular Enabling Strategy can be attributed to particular rate classes based on historical averages up to 2014, that cost will be allocated to those rate classes.

In May of 2014, at Efficiency Nova Scotia Corporation's (as it then was) request, Elenchus reexamined its 2012 recommendation. The entirety of their reply memorandum is attached as Appendix A to this letter.

In its analysis, Elenchus notes that 71 per cent of Enabling Strategies investments were not allocated to individual or small sub-sets of rate classes for the two year period of 2012 to 2013. This was due to the nature of these investments and the challenge in associating most Enabling Strategies investments to particular rate classes. In fact, 65 per cent of Enabling Strategies investments during this period were allocated to all rate classes. Investments that are allocated to all rate classes are subsequently allocated based on the share of all program costs incurred by a particular rate class.

Elenchus notes that with such a large portion of investment being allocated to all rate classes and subsequently allocated based on program allocators, there is a potential for a rate class to be double

[8] M04819 (E-ENSC-R-12), Efficiency Nova Scotia Corporation, *An Application to Approve Efficiency Nova Scotia Corporation's Electricity Demand Side Management (DSM) Plan for 2013-2015,* Evidence of ENSC As DSM Administrator (18 April 2012), Appendix C at p 14.

[9] *Nova Scotia Power Inc. – NS Power Cost Allocation Proposal – M07151/E-R-15* (30 October 2015), Submission to the Nova Scotia Utility and Review Board at p 6.

charged for Enabling Strategies investments. This can occur when an investment is directly assigned to a rate class that is also charged for their share of Enabling Strategies as allocated to all rate classes.

For the above reason, as well as the limited benefit associated with the large effort required to directly allocate Enabling Strategies investments, Elenchus recommends allocating the entire participant portion of Enabling Strategies investments based on a rate class's allocated share of all program investment (e.g., non-Enabling Strategies investment), relative to total all-program investment.

EfficiencyOne shares the concerns of Elenchus, as indicated by the Consumer Advocate,[10] namely that NS Power's proposal could maintain or worsen the issues associated with double-counting (or more properly, skewed allocators) that Elenchus strove to avoid in their most recent recommendation. The most acute example of this potential for skewed allocation is that the proposed use of historical allocators will already account for investment types that NS Power's proposed methodology will now also directly assign to rate classes (e.g., investments over $100,000).

Furthermore, in response to IR-5 from the Consumer Advocate,[11] NS Power showed that differences in allocated Enabling Strategies investment by rate class for 2016 would be less than $15,000 when comparing NS Power's proposed methodology with the recommended methodology endorsed by Elenchus in their May 2014 memorandum.

For all of the above reasons, EfficiencyOne supports adopting Elenchus's May 2014 recommended methodology (Appendix A) for the allocation of Enabling Strategies.

Rate Smoothing Adjustment Repayment and Application of the 2013 and 2014 Balance Adjustments

With respect to the repayment of the Rate Smoothing Adjustment (RSA) and the application of the 2013 and 2014 Balance Adjustments by rate class, NS Power suggests in its December 18th filing,[12] that a potential option would be to "recover" these variances by modifying the accessibility of DSM programs by rate class. Put simply, EfficiencyOne would prioritize access to programs for rate classes that are owed money and restrict access for rate classes that owe money. EfficiencyOne strongly opposes modifying program offerings in this manner.

In accordance with the Consensus Agreement reached during the 2016-2018 DSM Resource Plan Hearing, EfficiencyOne committed to monitor rate class spending levels, notify rate class representatives when issues are expected, and perform direct mitigating actions when possible.[13] EfficiencyOne cannot control rate class expenditures to a prescribed dollar amount. This introduces a significant risk that an

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[10] M07151/E-R-15, Consumer Advocate Information Requests, *The Public Utilities Act and An Application by Nova Scotia Power Incorporated ("NSPI") for Approval of the DSM Cost Allocation and Recovery* (11 January 2016) at Request IR-6.

[11] *Ibid* at Request IR-5.

[12] *Supra* note 5 at p 3.

[13] M06733, "Consensus Agreement," *The Public Utilities Act and An application by EfficiencyOne for Approval of a Supply Agreement for Electricity Efficiency and Conservation Activities between EfficiencyOne and Nova Scotia Power Inc. the establishment of a final agreement between the parties, and approval of a 2016-2018 Demand Side Management ("DSM") Resource Plan* (16 June 2015), Appendix A.

attempt at recovery through this method may fail or leave remaining variances outstanding. EfficiencyOne submits that a financial recovery is a more secure means of ensuring that inter-rate class imbalances are rectified.

The issue of modifying programs to perform a recovery also negatively affects EfficiencyOne's ability to meet energy and demand savings targets, to ensure the lowest-possible unit cost for its portfolio of programs, and to maintain high levels of customer satisfaction. These negative effects are more fully detailed in ENSC's response to IR-20 from the Industrial Group,[14] filed as part of 2015 DSM Resource Plan proceedings. These negative effects can be incurred by EfficiencyOne being bound to existing rate class spending amounts based on the development of a DSM Plan; large modifications to these amounts, as compared to an original plan, may exacerbate these negative consequences.

Finally, large changes to rate class spending expectations would intuitively require large changes to the program mix and types of programs offered by EfficiencyOne. This would require, in effect, the redevelopment of the 2016-2018 DSM Plan already approved by the Board. The time required for these modifications would preclude their implementation in 2016 and have potentially negative effects on program accessibility and program unit-cost.

EfficiencyOne supports the recovery of these items through either a subsequent GRA or Base Cost of Fuel hearing, and respects NS Power's, stakeholders', and the Board's judgment when arriving at an appropriate mechanism.

Conclusion

In summary, EfficiencyOne offers the following recommendations:

- adopt the Cost of Service Allocation approach, provided by NS Power, for the allocation of DSM costs;
- adopt NS Power's proposal to true up after each three-year contract;
- adopt Elenchus' May 2014 recommended methodology (Appendix A) for the allocation of Enabling Strategies; and
- recover RSA amounts trough either a subsequent GRA or Base Cost of Fuel process.

EfficiencyOne appreciates the opportunity to provide these comments on NS Power's DSM cost allocation and recovery filings. We look forward to continuing to work with the UARB, NS Power, and all stakeholders throughout the remainder of this process.

[14] M06247/E-ENSC-R-14, ENSC Responses to Industrial Group Information Requests (3 July 2014) at Request IR-20.

I trust you will find all in order.

THE BRETON LAW GROUP

James R. Gogan

cc. S. Bruce Outhouse, Board Counsel
M06733 (M07151) Participants

Appendix A

Elenchus Memorandum

May 7, 2014

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.

Email: afrank@elenchus.ca; direct line: 416-348-9917 x 21

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.

Email: afrank@elenchus.ca; direct line: 416-348-9917 x 21