Nova Scotia POWER
An Emera Company

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February 23, 2016

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 (NSPI) DSM Cost Recovery – M07151/E-R-15**

Dear Ms. Friis:

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 demand side management (DSM) components. The UARB also provided a timetable for intervenor questions and submissions as well as a reply submission from NS Power.

On February 16, 2016, submissions were filed by the Consumer Advocate (CA), the Small Business Advocate (SBA), the Industrial Group (IG) and EfficiencyOne (E1).

Please accept this letter as the Company's reply submission.

There are a number of areas of divergence in the respective views of the Company and the Intervenors on the issue of DSM cost recovery which are addressed in this reply submission. There are also, however, a number of areas where there appears to be alignment between NS Power and various Intervenors.

As noted in its submission dated December 18, 2015, the issue of cost allocation is primarily an issue between customer classes. As such, NS Power does not have a strong preference as to which methodology is utilized, with the exception that it 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.[1]

Intervenor Alignment

NS Power has identified the following areas where alignment in the Intervenor positions may be possible:

- Customer representatives prefer that cost allocation for the 2015 through 2018 period reflect the traditional DSM cost allocation model as possible;
- The rate smoothing adjustment should be allocated through a change to actual customer rates rather than reallocation of DSM program expenditures;
- True ups should continue on either an annual or contract period basis;
- Enabling Strategies – in absence of direct allocation, costs should be allocated based on each rate class' relative share relative to all program investment; and,
- 2016 DSM is to be considered an operating expense for NS Power.

The Company notes that the issue of the treatment of post-2016 DSM cost recovery has not generated consensus. NS Power's reply to Intervenor submissions on cost recovery follows the Intervenor Alignment sections and is titled Post 2016 DSM Cost Recovery.

Cost Allocation

The IG and the CA appear to support the traditional approach to cost allocation. This approach is most simply described as collection of DSM costs based on the DSM budget with a 25% allocation to system benefits and a 75% split to class participation. This approach is accompanied by a true-up mechanism that rebalances cost recovery to account for variances between the DSM budget and actual program participation. In essence, this approach would mimic the effects of the now defunct DSM Cost Recovery Rider (DCRR) but through embedded cost rates (fixed costs) rather than through a rider. For the purpose of this submission this will be termed the "Traditional Approach."

[1] NS Power Cost Allocation and Recovery Submission, (M07151), December 18, 2015, page 6.

2016 – 2018 Cost Allocation

In accordance with the Consensus Agreement dated June 16, 2015 and approved by the Board in its decision dated August 12, 2015, the parties agreed to refer the issue of cost allocation methodology to the Demand Side Management Advisory Group (DSM Advisory Group). Agreement was not reached on this issue among the members of the DSM Advisory Group. On October 30, 2015, NS Power submitted a proposal to the Board which reflected the Company's position based on input received from the DSM Advisory Group. NS Power provided further details with respect to the various options in its submission dated December 18, 2015. However, as noted, NS Power does not have a strong preference as to which methodology is utilized. NS Power is supportive of implementing an allocation policy that best satisfies the rate class representatives, as long as it does not have a material detrimental impact on E1's ability to cost effectively deliver energy savings.

Based on the submissions from the parties, the Company finds that cost allocation based on the "Traditional Approach" would be an acceptable outcome and best align the interests of the parties. NS Power would therefore be in agreement with the 2015 and 2016 DSM budget amounts being allocated to customer classes in alignment with E1's budgets for those respective years. As a result of this, actual DSM achieved on a per class basis in each of those years will be the base line for true up. NS Power will compare the DSM achieved to the Budget and, at the time of the next General Rate Application (GRA), the DSM amounts budgeted for the test year will be adjusted to account for any previous over or under allocated DSM costs. The result of this will be that, on balance and subject to future true ups, customers will only pay for the DSM they receive on a per class basis.

Rate Smoothing Adjustment

In its submission dated December 18, 2015, NS Power proposed three separate options for the rebalancing of the 2014 Rate Smoothing Adjustment (RSA) or Inter-class Loan. The Company noted that the RSA could be rebalanced through DSM programming, the next GRA or through the upcoming 2017-2019 Fuel Stability Plan under the *Electricity Plan Implementation (2015) Act*. E1 and the IG have expressed concerns over adjusting DSM program allocation to rebalance the loan. The IG summarized its position as follows:

> Further, the original lending/borrowing was accomplished by way of rate adjustments. The Industrial Group does not believe that converting those dollars to efficiency services is appropriate.
>
> Should NSPI apply for a GRA, the Industrial Group recommends that the true-up be included in the rates, to be recovered over the three year period. If NSPI does not apply for a GRA, it seems possible that the true-up could be accomplished using the BCF as a procedural vehicle. In both of those scenarios, the Industrial Group agrees that recovery should be over the three year period, with interest, as previously agreed and approved.[2]

No party expressed support for any of the alternate proposals brought forward by the Company in its submission. As such, NS Power submits that it would be appropriate for the Inter-class loan to be incorporated as part of the upcoming 2017-2019 Fuel Stability Plan proceeding as part of the fuel forecast refresh, should the Board agree that this is a suitable procedural venue as proposed by the IG.

True-up period

The CA, SBA and the IG each expressed support for a true-up between budget and actual DSM costs. As noted above, NS Power proposes that DSM revenues be trued up against actuals in accordance with how the previous true-up mechanism worked under the DSM Cost Recovery Rider (DCRR). Under this scenario, NS Power would compare recoveries and costs on an annual basis and ensure that the amounts are tracked in order to be appropriately allocated at the next rate setting procedure.

The SBA raised the issue that true ups should occur annually. However, NS Power does not have the option to true up its general rates on an annual basis or outside of a GRA process, if DSM is accounted for as a non-fuel cost as has been proposed for 2016. NS Power proposes, however, to track the costs on an annual basis so the true up will reflect annual variances.

[2] DSM Cost Allocation & Cost Recovery, Industrial Group Submission, (M07151), February 16, 2016, page 4.

Enabling Strategies

The CA and E1 expressed support for the allocation of Enabling Strategies to be aligned in accordance with the methodology recommended in the Elenchus Memo dated May 7, 2014. The Company, in its submission dated December 18, 2015, had proposed an alternate treatment based on direct allocation and historical averages. NS Power's proposed methodology for enabling strategies was supported by the Industrial Group.[3] NS Power submits that the Board should adopt the methodology proposed by NS Power.

2016 DSM

NS Power has requested the Board acknowledge that the 1/8 share of the 2015 DSM costs and all of the 2016 DSM costs are appropriately recovered as operating expenses in 2016. Intervenors have taken issue with the cost recovery proposal for the years beyond 2016. However, the Industrial Group has supported NS Power's request to expense 2016 DSM amounts.[4]

NS Power requests the UARB approve its proposed accounting treatment of the applicable 2015 DSM costs and the 2016 DSM costs as operating expenses.

Post 2016 DSM Cost Recovery

The CA and the IG have opposed NS Power's proposal to defer its decision on the accounting treatment of post 2016 DSM cost recovery until June 30, 2016. The CA has done so on the basis that current rates contain DSM funding adequate for the recovery of post 2016 DSM amounts[5]. The IG has recommended the Board deny the Company's request on the basis that the Company has not provided a suitable reason, in the Industrial Group's opinion, for a deferral of NS Power's cost recovery Decision beyond the April 30, 2016 deadline for the Company's filing of a GRA.[6]

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[3]DSM Cost Allocation & Cost Recovery, Industrial Group Submission, (M07151), February 16, 2016, pages 6-8.

[4] DSM Cost Allocation & Cost Recovery, Industrial Group Submission, (M07151), February 16, 2016, page 10

[5] DSM Cost Allocation & Cost Recovery, Consumer Advocate Submission, (M07151), February 16, 2016, page 2.

[6] DSM Cost Allocation & Cost Recovery, Industrial Group Letter, (M07151), February 16, 2016, page 3

In its filing dated December 18, 2016, NS Power acknowledged the April 30, 2016 deadline for filing a GRA. This shows that NS Power has made its request to defer a decision on whether it can expense post 2016 DSM with a full awareness of its legislative requirements for Rate Stability. In NSPI (IG) IR-07, the Company further added that responding to hypothetical scenarios on how it may treat post 2016 DSM costs if the UARB does not approve its request to defer the decision on its accounting treatment would not be appropriate until the UARB has ruled on the issue. The time required for the UARB to fully consider the issues before it in this matter further supports the Company's request to defer its decision on the accounting treatment of 2016 DSM costs until June 30, 2016.

NS Power responded to the CA's assertion that the Company already has funds in existing customer rates to cover post 2016 DSM costs in NSPI (Multeese) IR-06:

> **Re the statement under the heading "DCRR Amounts currently in rates" on page 4 of the December 18 submission, please elaborate on how this is addressed in the comments re: 2016-2018 Program Costs.**
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> Response IR-6:
>
> NS Power does not consider its current non-fuel rates to contain DSM funds. Although there is currently no portion of the revenue requirement from the previous GRA that is collected explicitly to pay for DSM programming, NS Power has considered the sum of its forecasted expenses for 2016, including the 2016 DSM program costs, when making the determination that it would expense 2016 DSM costs and absorb the recovery risk of those costs. The Company will make a similar determination when considering whether to apply for a GRA for 2017-2019 as contemplated under the *Electricity Plan Implementation (2015) Act*. If the Company does not apply for a GRA, it has requested until June 30, 2016 to finalize its Cost Recovery proposal for post 2016 DSM costs.[7]

NS Power maintains that deferral of a decision on accounting treatment of post 2016 DSM cost recovery is appropriate.

A final determination has still not been made as to whether NS Power can absorb DSM

[7] Multeese (NSPI) IR-06, page 7.

amounts for 2017-2018 in existing rates. As such, NS Power continues to request that the Company be permitted until the earlier of the Company filing a GRA or June 30, 2016 to present its position on 2017-2018 DSM costs.

Conclusion

NS Power notes that many of the cost allocation issues before the Board in this matter pertain to how DSM costs are divided amongst and collected from the various rate classes.

The Company recommends as follows:

- The Board confirm that a 1/8 share of the 2015 DSM costs and all of the 2016 DSM costs are appropriately recovered as operating expenses in 2016.
- NS Power be permitted until the earlier of the Company filing a GRA or June 30, 2016 to present its position on 2017-2018 DSM costs.
- NS Power does not have a strong preference as to which cost allocation methodology is utilized, however, based on the submissions from the parties, the "Traditional Approach" to DSM cost allocation and true-up should be implemented.
- True ups will be tracked annually and affected into rates at the time of the subsequent GRA.
- Enabling strategies be allocated in accordance with NS Power's proposal from its December 18, 2015 submission.

The Company thanks Intervenors for their contributions and appreciates the opportunity to provide further submissions in this matter.

Yours truly,

Brian Curry
Regulatory Counsel