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Nova Scotia Utility & Review Board
PO Box 1692, Unit "M"
Halifax, Nova Scotia
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Attention: Doreen Friis, Regulatory Affairs Officer / Clerk

Dear Ms. Friis:

Re: M07544 EfficiencyOne - Incentive Setting Methodology (E-ENS-R-16)

This letter is in reference to the Board's correspondence of October 12, 2016, relating to the Incentive Setting Methodology study of EfficiencyOne.

Background

As the Board indicated in its correspondence of October 12, 2016, during the course of the proceedings with respect to the approval of the 2016 -2018 DSM Plan, concerns expressed regarding DSM incentives resulted in the Board directing EfficiencyOne to undertake research and make recommendations for a more rigorous incentive setting approach.

EfficiencyOne responded to the Board's directive and engaged CleaResult to investigate ratepayer-funded energy efficiency program incentive-setting methodologies from other jurisdictions, identify best practices and assess the implications of applying them to Efficiency One's portfolio of programs. The objective was to develop a comprehensive incentive setting methodology approach. On June 30, 2016, EfficiencyOne filed CleaResult's report with respect to EfficiencyOne's incentive setting methodology, together with an implementation plan.

Synapse, the Small Business Advocate (SBA) and NS Power filed comments on CleaResult's report and recommendations on August 3, 2016, and EfficiencyOne responded to those comments on August 17, 2016.

On October 7, 2016, Synapse filed additional comments with the Board in response to EfficiencyOne's August 17, 2016 submissions.

In response to Synapse's additional submissions, the Board noted outstanding concerns remained with regard to EfficiencyOne's proposed incentive setting methodology, and requested that EfficiencyOne undertake further discussions with Synapse and the DSM Advisory Group (DSMAG) in an effort to reach consensus on outstanding concerns. EfficiencyOne was directed to report to the Board on the results of those consultations by November 15, 2016.

Following is EfficiencyOne's update with respect to this engagement.

Outstanding Issues as of October 12, 2016

EfficiencyOne identified the following issues as those which remained outstanding as of the Board's letter of October 12, 2016:

1. Incentives for Early Replacement projects
2. Incentive optimization techniques
3. Perceived value verses benefits to participants
4. Use of the Van Westendorp Price Sensitivity Meter
5. Discussion of financing within the Report
6. Clarifying theoretical limits and incentive thresholds
7. Clarifying the role of the supply chain research in incentive setting

On October 27, 2016, EfficiencyOne, CleaResult and Synapse held a productive discussion, reaching consensus on all issues, with the exception of Incentives for Early Replacement projects, specifically the use of appropriate mechanisms for ensuring incentives that exceed incremental costs are appropriately minimized. This remaining issue was subsequently settled during additional discussions between the three parties during the week of November 7, 2016.

Consultation with DSMAG

The issues and consensus positions as set out in relation to the above issues, were presented to stakeholders in a meeting with the DSMAG on November 3, 2016. At that time no additional issues, concerns or objections were raised by DSMAG members. Subsequently, the SBA provided comments to EfficiencyOne, which were received on November 14.[1] The SBA and EfficiencyOne agree that the

[1] Two comments were provided by the SBA in support of the consensus, while two comments requested additional information or clarity. The two comments that request additional information are: **(1)** Slide 8: The SBA understands that the consensus position on Slide 8 is to use the PAC test and agrees that it is helpful to inform utility return on investment, however, we expect that the revised version of the Incentive Setting Report will present E1's estimated customer participation rate by measure for different incentive amounts, rather than just a maximum amount. This will allow E1 to offer its view in the Incentive Setting Report for what measures should be maintained or expanded, or even dropped from the program in favor of new measures. **(2)** Based on the SBA's understanding of Slide 8, then Slide 10's planned actions committing only to include a "high-level" discussion on customer research for program delivery and marketing, is not sufficient.

comments represent requests which do not materially impact the current consensus, but which do require additional discussion with the DSMAG.

1. Incentives for Early Replacement Projects

Consensus Position

Following consultation, EfficiencyOne, CleaResult and Synapse reached the following consensus:

- All parties support the use of the Remaining Useful Life Discounted Incremental Cost method for Early Replacement projects.[2]
- All parties support the use of the Remaining Useful Life Discounted Incremental Cost method for the purposes of cost-effectiveness testing.
- All parties support clarifying the incentive limits section of the CleaResult report to indicate that the Remaining Useful Life Discounted Incremental Cost method costs should be a suggested limit for Early Replacement programs.

Go-Forward Plan

- EfficiencyOne will provide justification for incentives exceeding incremental costs (for End-Of-Life Replacement projects), or "Remaining Useful Life Discounted Incremental Costs" (for Early Replacement measures) during the development of a DSM Resource Plan Application. EfficiencyOne will also continue to provide information on incremental costs as part of measure substantiation during plan development, and will provide information on Remaining Useful Life Discounted Incremental Costs for Early Replacement measures. This information will be proactively provided to the UARB and stakeholders as part of the DSM Resource Plan Standardized Filing. This approach provides a proactive opportunity for Stakeholders to comment on measure incentive levels. [3]
- EfficiencyOne will provide details and rationale for any incentives that are adjusted or revised and subsequently exceed incremental costs (or Remaining Useful Life Discounted Incremental Costs) to the DSMAG, when such adjustments occur.[4]
- CleaResult will update sections of its report to reflect consensus positions, including an update of suggested limits and the removal of absolute limits.[5]

[2] The Remaining Useful Life Discounted Incremental Cost method calculates incremental costs for retrofit projects where functioning existing equipment, with remaining useful life, is replaced by more energy efficient equipment. Remaining Useful Life Discounted Incremental Costs are defined as the material and installation costs of the energy efficient equipment minus the present value of avoided material and installation costs of "baseline" equipment, discounted across the remaining useful life of the existing equipment.
[3] These go-forward points for Early Replacement projects have been agreed to among EfficiencyOne, CleaResult and Synapse, however, due to time constraints, have not yet been reviewed by the DSMAG.
[4] *Ibid*.
[5] *Ibid*.

- CleaResult will further amend its report to provide decision-type target by program. Decision-type (Early Replacement or End-of-Life Replacement) by program will also be provided as part of Standardized Plan Filing in future DSM Resource Plan applications.

2. Incentive Optimization Techniques

Consensus

As a result of further engagement, EfficiencyOne, CleaResult and Synapse, reached the following consensus position:

- Customer research should broadly guide the ultimate optimization of incentive amounts under the objective function of a minimum incentive for a given level of participation.
- The Program Administrator Cost test (PAC) is important in terms of quantifying utility return on investment. The PAC can indicate an incentive is unattractive in terms of utility return on investment, but any revised investment should be market tested for effectiveness.

Go-Forward Plan

- This issue will be clarified in CleaResult's report within the incentive limits discussion.

3. Perceived Value and Benefits to Participants

Consensus

As a result of further engagement and discussion, EfficiencyOne, CleaResult and Synapse reached the following consensus position:

- Actual customer avoided energy and demand benefits and measure costs can be ascertained by the Participant Cost test. This cost effectiveness test should be included as part of technology research.
- The Participant Cost test can be useful in assessing customer return-on-investment, but should not be used in isolation, in the absence of customer research on perceived value, to inform incentive levels.
- Customer research is valuable in informing program delivery models, marketing approach and incentive structure.

Go-Forward Plan

- CleaResult will broaden its report to include high-level discussion on customer research considerations regarding program delivery models, marketing approach and incentive structure.
- The Participant Cost test will be included in the discussion of technology research, together with how its results could be interpreted as a consideration of incentive design. Higher Participant

Cost results, in the context of low participation, could indicate that non-financial barriers are important to overcome.
- The section heading "Perceived Value" terminology will be updated to "Participants' Perceived Value".

4. Use of the Van Westendorp Price Sensitivity Meter (VWPSM)

Consensus Position

As a result of further engagement and discussion, EfficiencyOne, CleaResult and Synapse reached the following consensus position:

- EfficiencyOne and CleaResult have no preference for a specific type of price sensitivity research technique.

Go-Forward Plan

- CleaResult will modify the report to indicate explicitly that no particular price sensitivity technique is recommended.
- EfficiencyOne will modify its Implementation Plan to indicate future investigation of different price sensitivity research techniques and their characteristics.

5. Discussion of Financing within the Report

Consensus Position

As a result of further engagement and discussion, EfficiencyOne, CleaResult and Synapse reached the following consensus position:

- EfficiencyOne and CleaResult agree with Synapse's recommendations pertaining to the inclusion of financing incentive discussion within the report.

Go-Forward Plan

- CleaResult will include additional content within its report in accordance with this recommendation and the consensus position.

6. Clarification of Theoretical Limits and Incentive Thresholds

Consensus Position

As a result of further engagement and discussion, EfficiencyOne, CleaResult and Synapse reached the following consensus position:

- EfficiencyOne and CleaResult agree with Synapse's recommendations pertaining to the inclusion of financing clarification and justification of incentive limits and thresholds.

Go-Forward Plan

- CleaResult will include additional clarification on how these limits apply to differing program types, as well as programs that target different decision types.
- CleaResult will provide context and justification of choices in regard to quantitative values.

7. Clarification of Supply Chain Research for Incentive Setting

Consensus Position

EfficiencyOne, CleaResult and Synapse reached the following consensus position:

- EfficiencyOne and CleaResult agree with Synapse's recommendation and submit that supply chain research should be used to inform customer and technology research, as well as facilitate customer access for said research.

Go-Forward Plan

- CleaResult will modify its report to provide greater clarity on how supply chain research should be used, and how it affects incentive levels through its linkage to customer and technology research.

Implementation Timeframe

The Implementation Plan filed on June 30, 2016, established timelines for the implementation of CleaResult's recommendations. As a result of the need for further consultation with Synapse and DSMAG, EfficiencyOne respectfully requests Board approval of the following revisions to the timeframe:

Deliverable	**Original Timeframe for Completion**	**New Timeframe for Completion**
Q3 Update to UARB on Financial Expectations re: Incentive Research	November 30, 2016	No change required
Residential LED Market Penetration Research	December 31, 2016	No change required
2-year Market Research Plan (2017-2018)	December 31, 2016	End of Q1 2017

Technical Reference Manual	June 30, 2017	September 30, 2017
Incentive Process Manual	December 31, 2016	End of Q1 2017
Consolidated Calculator	December 31, 2016	End of Q1 2017
Financial Simulation	March 31, 2017	June 30, 2017
Evaluation of Implementation by Econoler	2016 Evaluation Process	2017 Evaluation Process

Updated Report and Implementation Plan

Subject to acceptance by the Board of the consensus items included herein, EfficiencyOne will direct CleaResult to prepare the required updates to its report and EfficiencyOne will update its Implementation Plan accordingly.

In summary, EfficiencyOne requests the following:

- UARB acceptance of the consensus items between Synapse, EfficiencyOne and CleaResult, and acceptance of the Go-Forward plans amongst the parties.
- Approval of the requested extensions in regard to EfficiencyOne's Implementation Plan.

EfficiencyOne appreciates the opportunity to provide this further update to the Board and awaits further direction.

Respectfully,

The Breton Law Group

James R. Gogan

JRG/jmd
cc. M06733 Participants