EfficiencyOne

IN THE MATTER OF: The Public Utilities Act

- and -

IN THE MATTER OF:
EfficiencyOne 2022 Audited Financial Statements –
December 31, 2022

M11094

EfficiencyOne Responses to Information Requests (RIRs)

E1 (NSUARB) RIRs 01-11

FILED
July 12, 2023

E1 Responses to Nova Scotia Utility and Review Board (NSUARB) Information Requests
NON-CONFIDENTIAL

Request IR-01:

With regards to the Consolidated Statement of Operations, Demand Side Management Fund:

(a) Please provide an explanation for the increase in incentives from $22 million in 2021 to $27 million in 2022.

(b) Please provide an explanation for the increase in bad debt from $2,000 in 2021 to $52,000 thousand in 2022.

(c) Please advise what caused the increase in salaries and benefits costs between 2021 and 2022.
i) Has the number of employees at E1 increased or decreased in 2022? If so, please indicate the change.

Response IR-01:

(a) The $5.0 million increase in incentives is a result of the increased incremental annual net energy savings achieved and the mix of program components. In 2022, E1 achieved 121.899 GWh of incremental annual net energy savings as compared to 109.418 GWh achieved in 2021. Incentive costs are driven by the level of program participation, which programs customers choose to participate in, and the measures that participants select. As a result, incentive costs often do not directly correlate to savings achieved at an aggregate level. Incentives flow to customers either directly or through services provided by third parties with these costs directly influenced by the level of participation at a program component level.

(b) The bad debt expense reported in 2021 is related to an uncollectible amount where financing was extended through NS Power's on-bill financing program. In 2022, EfficiencyOne established an allowance for bad debt, reflective of anticipated losses associated with the program. EfficiencyOne is responsible for all financing costs (which includes the current value of the Weighted Average Cost of Capital and administrative costs associated with the application and collection of funding) and any bad debt arising from the financing arrangement.

(c) The increase in salaries and benefits from 2021 to 2022 was primarily driven by increases in employee salaries and benefits due to the annual market adjustment. EfficiencyOne maintains a compensation policy of ensuring the organization maintains compensation and employment benefits that are competitive in the Nova Scotia labour market with annual market adjustments informed by third-party research. In 2022 there was one additional FTE assigned to the 2023-2025 DSM Plan development and to support the regulatory process.

i) Please refer to EfficiencyOne's IR Response to (c).

Request IR-02:

With regards to Consolidated Statement of Operations and Provincial Fund, please provide an explanation for the increase in incentives from $24 million in 2021 to $31 million in 2022.

Response IR-02:

The Provincial Fund represents efficiency and conservation services provided under contractual arrangements between EfficiencyOne and the Province of Nova Scotia. These services are not "demand side management" activities as defined and regulated pursuant to the *Public Utilities Act*, c 380, RSNS, 1989, as amended (the "PUA"); nor are they franchise activities as referenced at 79C(2)(a) of the PUA. For purposes of business efficacy, the Provincial Fund services are delivered by EfficiencyOne, yet remain distinct from the regulated activities and provision of demand-side management pursuant to the provisions of the Grant of Franchise between EfficiencyOne and the Province of Nova Scotia, and subject to oversight by the Nova Scotia Utility and Review Board (the "NSUARB") through the PUA.

Note 2 of the EfficiencyOne Consolidated Financial Statements to December 31, 2022, "Significant Accounting Policies" make specific reference to these distinct activities of the Corporation noting that each is operated on a separate and fully restricted basis.

> "The Demand-Side Management ("DSM") Fund is used to account for the operations of the Corporation including the fee-for-service revenues received and expenses incurred for the delivery of DSM programs and services. The Supply Agreement for Electricity Efficiency and Conservation Activities ("EECA") with Nova Scotia Power is approved by the Nova Scotia Utility and Review Board ("NSUARB"). Cash received under the DSM Fund is only used for operations of the fund. Interest income earned on cash received is retained within the fund and restricted for operations of the fund.

> The Provincial ("PNS") Fund is used to account for the operations of the Corporation including the fee-for-service revenues received and expenses incurred for the delivery of PNS programs and services according to the terms of the contracts with the Province of Nova Scotia. Cash received under the PNS Fund is only used for operations of the fund. Interest income earned on cash received is retained within the fund and restricted for operations of the fund.
>
> The Other Business Fund is used to account for subsidiary operations and other non-DSM and non-PNS activities. Interest and investment income earned on cash received is retained within the fund and restricted for operations of the fund."

The Notes to the Consolidated Financial Statements of EfficiencyOne also makes reference to the use of the Cost Allocation Methodology ("CAM") in respect to expenses not directly attributable to a specific fund. The CAM has been reviewed and approved for use by the NSUARB. Detail with respect to the application of the CAM is provided in Note 13 - Cost Allocation Methodology. Allocation of shared expenses between Funds, subject to the CAM, forms part of the audit procedures carried out by the Corporation's external auditors, in conjunction with the annual audit of EfficiencyOne's financial statements. The CAM is subject to direct oversight and review by the NSUARB.

Efficiency activities carried out by EfficiencyOne through contractual agreements with the Province of Nova Scotia, under the Provincial Fund, are subject to contractual provisions which require that EfficiencyOne, *inter alia*:

1. maintain the confidentiality of the Confidential Information at all times;
2. use the information only for the purposes of or relating to this Agreement and for no other purpose;
3. refrain from disclosing or granting access to the Confidential Information to any third party in any manner whatsoever; and

4. disclose the Confidential Information only to those employees of E1 as is reasonably necessary unless expressly agreed otherwise by the Parties in writing.

EfficiencyOne respectfully submits that information requested, relating to the unregulated activities of the Corporation is not relevant to the analysis of the regulated functions of the franchise holder detailed and provided within the separately accounted for "Demand Side Management Fund" activities of the Corporation. In addition, EfficiencyOne further submits that the information requested with respect to unregulated activities of the Corporation, is commercially sensitive and contractually restricted from disclosure pursuant to the terms and conditions of its funding agreements.

Request IR-03:

With regards to Consolidated Statement of Cash Flows, Demand Side Management Fund, please detail the reason for the increase in the change in accounts receivable balance.

Response IR-03:

The increase in accounts receivable between 2021 and 2022 relates to an adjustment to the DSM Fund as a result of the year end Cost Allocation Model true up. The DSM Fund expenses reflected the cost recovery; however, the interfund cash transfer cannot be completed until January 2023 and therefore is recorded as an Accounts Receivable in the financial statements.

Request IR-04:

With regards to Note 3 to the Consolidated Financial Statements - Revenue:

(a) Please explain the increase from \$34 million in 2021 to \$41 million in 2022 in the fee-for-service revenue related to DSM fund.

(b) Please provide an explanation for the increase in Provincial Fund from \$32 million in 2021 to \$36 million in 2022.

(c) Please explain the increase to \$41 million in 2022 from the approximately calculated \$36 million per year (\$110 million over three years) for the program.

(d) Please explain why only \$1.161 million was recognized as revenue in the year where the agreement provides funding of \$124 million over five years or approximately \$24.8 million a year.

(e) Please provide a statement of operations (revenues earned vs expenses incurred) for the programs and grants in 2022 such as the ones mentioned in the note.

i) The Company has a deficit of \$2,000 in the year, mainly due to "Other Business Fund" transactions. Are the additional programs and grants handled by the Company putting a strain on the operations and finances of the Company?

(f) Please provide a table showing total annual and to date earned revenue and cash receipt for each program/contract since the start of each program.

(g) What is the $15 million in endowment from FCM to be used on? Please explain its restrictions.

i) When will the amount be earned/spent?

(h) Please explain why there was no payment related to the Green Fund in 2022.

Response IR-04:

(a) The payment schedule for fee for service revenue in the Demand Side Management Fund is specified by Schedule B in the Supply Agreement for Electricity Efficiency and Conservation Activities between EfficiencyOne and NS Power and is aligned with Nova Scotia Utility and Review Board approved 2020-2022 DSM Resource Plan. An amendment to the Supply Agreement, dated December 1, 2020, revised Schedule B to provide for $34.6 million in 2021 and $41.0 million in 2022.

(b) Please refer to EfficiencyOne's response to NSUARB IR-02.

(c) Please refer to EfficiencyOne's IR response in (a).

(d) Please refer to EfficiencyOne's response to NSUARB IR-02.

(e) The Other Business Fund includes efficiency and conservation services provided under agreements between E1 and other third-parties or EfficiencyOne's subsidiaries. The services provided under the Other Business Fund are unregulated activities. Any services EfficiencyOne provides to its subsidiaries or that subsidiaries provide to EfficiencyOne are governed by EfficiencyOne's Inter-Affiliate Code of Conduct approved by the Nova Scotia

Utility and Review Board and reported annually through EfficiencyOne's Compliance Report. Please also refer to EfficiencyOne's response to NSUARB IR-02.

i) Please refer to EfficiencyOne's IR response in (e).

(f) Please refer to EfficiencyOne's response to NSUARB IR-02.

(g) Halifax Climate Investment, Innovation and Impact Fund and services provided represent unregulated activities of E1.

(h) The Provincial Fund includes efficiency and conservation services branded as Efficiency Nova Scotia and are provided under agreements between E1 and the Provincial government. The services provided under the Provincial Fund are unregulated activities. Please refer to EfficiencyOne's response to NSUARB IR-02.

Request IR-05:

With regards to Note 4 to the Consolidated Financial Statements - Investments:

(a) Please explain how $60 million was determined to be excess cash to be invested in a GIC. Please also indicate its fund source: DSM, PNS or other business funds.

i) Is this a cashable GIC?

ii) Will the Company need to access these funds prior to May 10, 2023?

iii) How will the Company fund unexpected events if significant excess cash is invested?

Response IR-05:

(a) The $60 M investment represents funds received in respect of PNS contractual activities. The Provincial Fund includes efficiency and conservation services branded as Efficiency Nova Scotia and are provided under agreements between E1 and the Provincial government. The services provided under the Provincial Fund are unregulated activities.

i) Please refer to EfficiencyOne’s response to NSUARB IR-02.

ii) Please refer to EfficiencyOne’s response to NSUARB IR-02.

iii) Please refer to EfficiencyOne’s response to NSUARB IR-02.

Request IR-06:

With regards to Note 6 to the Consolidated Financial Statements – Investment in EfficiencyOne Services Inc., please explain the decrease of 93% in revenue for EfficiencyOne Services.

Response IR-06:

The services provided by EfficiencyOne Services Inc. represent unregulated activities. The transactions between EfficiencyOne Services Inc. and EfficiencyOne are subject to the NSUARB approved Inter-Affiliate Code of Conduct, and separately reported upon.

Request IR-07:

With regards to Note 8 to the Consolidated Financial Statements – Deferred Revenue, please explain why the provincial fund deferral of current year revenue is $70 million, compared to 2021 deferral of $40 million.

Response IR-07:

Please refer to EfficiencyOne's response to NSUARB IR-02.

Request IR-08:

With regards to Note 10 to the Consolidated Financial Statements – Commitments, please explain the increase in the DSM Fund Share.

Response IR-08:

The Custom program component accounted for $2.8 million or 74% of the increase in Commitments between 2021 and 2022. The remaining $1.0 million increase was attributable to Small Business Energy Solutions and Home Energy Assessment. The number of customer projects for these programs that were initiated in 2022 and not completed has increased over 2021.

Request IR-09:

With regards to Note 11 to the Consolidated Financial Statements – Significant Events, please explain what the impact to the 2022 financials was as a result of the COVID-19 pandemic.

Response IR-09:

In 2022, EfficiencyOne's results continued to demonstrate recovery to near pre-pandemic levels. However, lingering COVID-19 impacts continued to negatively, and significantly, impact specific program components including Mi'kmaw Home Energy Efficiency Project, Business Energy Rebates, Affordable Multi-family Housing, Efficient Product Installation, and Custom. The impacts included project completion delays, contractor availability issues, supply chain issues, customer appointment cancellations, and a temporary pause to services and in-home activities requested by some communities. For a more detailed explanation by program, please see the 2022 DSM Annual Progress Report.[1]

[1] M11071, Exhibit 1, EfficiencyOne, 2022 DSM Annual Progress Report, March 31, 2023, page 5, 20-22, and 25.

Request IR-10:

With regards to Note 12 to the Consolidated Financial Statements – Risk Management, please explain what specific events have increased the Corporation's risk exposure.

Response IR-10:

As noted within the Consolidated Financial Statement Notes, overall corporation risk has increased as a consequence of changes in the type of financial instruments being used. These changes are attributable to the non-regulated funds of EfficiencyOne. There have been no specific events or changes related to the DSM Fund that have increased EfficiencyOne's risk exposure.

Request IR-11:

Please explain why a copy of the 2022 T2 Corporation Income Tax Return was not filed.

(a) Please include 2022 T2 Corporation Income Tax Return.

Response IR-11:

(a) The 2022 T2 Corporation Income Tax Return (Return) includes all business activities of EfficiencyOne and is not limited to the regulated DSM Fund. The Return is provided upon request by the Nova Scotia Utility and Review Board (NSUARB). Please refer to Attachment 1 of this IR Response for a copy of the Return, provided as NSUARB-only confidential.