

Nova Scotia Energy Efficiency and Utility Revenue Reforms

A Policy Proposal Developed by Ecology Action Centre and Environment Northeast



Summary of the Policy Proposal

Outdated ratemaking and utility revenue schemes are causing a severe structural under-investment in cost-effective electric efficiency in Nova Scotia as well as in most other provinces and states in the region.

This is a proposal to improve the way the province invests in efficiency programs that cost less than conventional electric supply.

It would also provide an improved approach to structuring utility rates to align them with the goals of increasing efficiency investments and promoting cleaner, distributed electric generation.

This proposal would significantly help Nova Scotia achieve its climate change and clean air goals, while saving consumers money, creating local jobs, and keeping more energy dollars at home rather than expanding supply resources that are dependant on expensive imported fossil fuels.

Summary of the policy proposal:

- The Utility and Review Board shall direct investments beginning January 1, 2008 in electric energy efficiency and demand reduction programs to realize all achievable and cost-effective investments that are reliable and feasible on behalf of all customers.
- A new Energy Efficiency Stakeholder Board composed of consumer, environmental, and state agency representatives will select a Program Administrator. Both entities will work collaboratively to identify all cost-effective investments in efficiency and planning and designing programs. The Stakeholder Board will increase accountability in efficiency programming and raise public awareness of energy efficiency needs and opportunities, while leaving final regulatory approval with the Utility Review Board.
- Utility incentives will be aligned with the goal of increasing energy efficiency and distributed generation by decoupling utility fixed costs from sales.

Increased Energy Efficiency Investments

By January 1, 2008, the Utility and Review Board (UARB) shall establish investments in energy efficiency and demand reduction programs amounting to no less than 2% of total utility revenues after ramp-up to capture all achievable and cost-effective investments that are reliable and feasible on behalf of all customers. A new Program Administrator will be selected by competitive process, and shall develop an Efficiency Investment Plan every two years for a two year period.

The Efficiency Investment Plan will identify the efficiency programs and annual budget amounts required to expand its procurement of cost-effective efficiency that is reasonably available. Programs included in the Plan shall be screened through cost-effectiveness testing using the required Total Resource Cost (TRC) test which compares the value of program benefits to program costs to ensure that programs are designed to obtain energy savings and system benefits whose value is greater than the costs of the programs. Program cost-effectiveness shall be reviewed annually, or otherwise as is practicable. If a program is determined to fail the cost-effectiveness test as part of the review process, it shall either be modified to meet the test or shall be terminated. Increases in efficiency investments will be ramped up quickly based on the Program Administrator's ability to maintain high quality programs.

The efficiency programs may be implemented by contractors competitively selected by the Program Administrator. The Efficiency Investment Plan will identify existing funding sources including provincial or federal funds, emissions allowances, or other funding sources, with any additional program investment needs recovered through distribution rates. The Plan will maintain an appropriate balance of investments and programs between rate classes.

Efficiency Program Oversight and Regulatory Approval

A new Energy Efficiency Stakeholder Board (Stakeholder Board) will be established to help ensure that residential ratepayers, business consumers, environmental interests, and provincial departments have meaningful input into the development, design, and oversight of efficiency programs.

The Stakeholder Board will be appointed by the Minister of Energy but consist of one representative

from each of the following organizations: (1) a manufacturing association, (2) a business association, (3) a chamber of commerce, (4) residential customers, (5) low income customers, (6) an environmental organization knowledgeable in energy efficiency programs, (7) the Department of Energy, (8) the Department of Environment and Labour, and (9) the Attorney General. Members shall have some experience in energy issues or representing electric consumers or the environment, shall serve for terms of four years and may be reappointed. Electric distribution companies and the URB will be ex-officio, non-voting members of the Board. The Stakeholder Board will have access to independent consultants to advise them in the review of programs and development and review of the plan. Stakeholder Board members will be unpaid, but have reasonable expenses reimbursed.

The Program Administrator and also the utility will work cooperatively with the Stakeholder Board to develop the Efficiency Investment Plan. Each program contained in the plan shall be either accepted or rejected by the Stakeholder Board prior to submission to the URB for approval. Approval of programs, the plan, and other major decisions by the Stakeholder Board shall require a two-thirds majority vote. It will also submit its review and vote to the URB. The URB will have final review and approval of the Program Administrator plan but will give deference to the plan (or portions thereof) receiving Stakeholder Board approval.

Review and Approval Process Summary

1. Stakeholder Board will select an entity to serve as the Program Administrator
2. Program Administrator begins drafting Efficiency Investments Plan to capture the maximum cost-effective, feasible, and reliable efficiency resources.
3. Program Administrator works with the Stakeholder Board and their consultants and receives suggestions on how to improve its draft plan and programs.
4. Program Administrator sends revised plan to Stakeholder Board who votes on plan and its programs.
5. Program Administrator attempts to address any remaining outstanding issue raised by the Stakeholder Board

6. URB review and approval of plan with deference to portions receiving Board approval.

Utility Rate & Incentive Reforms

In order to align utility incentives with the goals of this efficiency planning and procurement process, reforms are needed in the way Nova Scotia Power is compensated for costs incurred.

Decoupling

Electric distribution companies currently recover most fixed distribution costs through volumetric (kWh) charges that create an incentive for the utility to maximize sales. To remove this disincentive for investments in energy efficiency and distributed generation, modest, regular true-ups in rates will be established to ensure that any fixed-costs recovered through volumetric charges are not dependent on sales volumes.

For distribution rates after the expiration of existing rate plans, the decoupling mechanism will provide for regular true-up to the utility fixed-cost revenue requirement (distribution charge only), on a quarterly or annual basis.

It will also allow for adjustments due to adding new customers, permit annual inflationary adjustments to the extent a full cost of service case is not filed in a given year, and permit the implementation of mechanisms to address established needs for infrastructure improvements to maintain reliability without filing complete cost-of-service rate cases.

The fact that a revenue decoupling mechanism is being employed will not be a factor in determining the utilities allowed return on equity.

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The Ecology Action Centre (EAC) is a vital, independent voice for environmental sustainability in Nova Scotia. Our vision is a society in Nova Scotia that respects and protects nature and provides environmentally and economically sustainable solutions for its citizens. The Centre, founded in 1971, has 1,400 members, hundreds of volunteers.

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Environment Northeast is a nonprofit research and advocacy organization focusing on the Northeastern United States and Eastern Canada. We specialize in energy and climate change policy. Our mission is to address large-scale environmental challenges that threaten regional ecosystems, human health, or the management of significant natural resources. We use policy analysis, collaborative problem solving, and advocacy to advance the environmental and economic sustainability of the region.