Q. Once Muskrat Falls is fully and reliably operational, energy savings resulting from CDM will not lead to substantial production cost savings (as previously would have been the case with reliance on Holyrood) but, instead, the energy will still be produced but at Muskrat Falls, the total costs of which are fixed.

(a) Would system costs change much, if at all, considering that the CDM energy savings would still be produced but sent to export markets?

(b) With CDM induced energy savings causing a shift in energy sales from local to lower-price export markets, and considering Hydro's fixed requirements to pay for Muskrat Falls, how would Hydro recover its net revenue loss?

A. (a) Newfoundland and Labrador Hydro's ("Hydro") power purchase costs under the Muskrat Falls Project agreements will not decline as a result of customers reducing their energy usage through participation in conservation and demand management ("CDM") programs. However, proper evaluation of CDM considers the impact of changes in customer load on future generation costs, transmission costs, and distribution costs. The implementation of properly targeted CDM programs will lower these future costs (specifically system capacity costs) from what they otherwise would be if the CDM programs were not made available to customers.

(b) CDM programs are evaluated by Hydro and Newfoundland Power Inc. (collectively, the "Utilities") using tests accepted by the National Standards Practice Manual.[1] This manual is the authoritative source of information on evaluating the cost-effectiveness of customer programs. The use of these tests ensure the CDM programs implemented will reduce the overall costs to customers. The extent to which there may be rate increases above what

[1] The Board of Commissioners of Public Utilities ("Board") approved the use of the Total Resource Cost test and Program Administrator Cost ("PAC") test to evaluate the cost-effectiveness of CDM programs in Board Order No. P.U. 18(2016). Following that Order, the Utilities were no longer required to evaluate CDM programs by way of the Rate Impact Measures test, which is no longer widely used for CDM programs. The PAC test determines whether system costs will be reduced and includes avoided utility system costs and program delivery costs. Use of the PAC test is appropriate for CDM programs, as CDM programs are designed to result in lower system costs.

would otherwise happen as a result of CDM investments is not a good measure for assessing net benefits of CDM programs and would not be consistent with generally accepted public utility practice.