Q. Reference slide 35

It is stated that the Rate Impact Measure (RIM) test is not recommended for the economic evaluation of CDM programs.

(a) Why is that the case?

(b) Is the electrification programs' "Rate Mitigation Benefit," referred to on slide 22, the same as a rate impact measure or are they different concepts?

A. *This Request for Information relates to the Electrification, Conservation and Demand Management Plan 2021–2025 ("2021 Plan") developed in partnership by Newfoundland and Labrador Hydro ("Hydro") and Newfoundland Power Inc. ("Newfoundland Power") (collectively, the "Utilities") and the related Technical Conference presented by the Utilities on February 1, 2022. Accordingly, the response reflects collaboration between the Utilities.*

(a) The National Standards Practice Manual ("Manual") states several reasons why the Rate Impact Measure ("RIM") test is not recommended for the economic evaluation of Conservation and Demand Management ("CDM") programs, including:

(i) Cost-effectiveness analyses should account for only future, incremental benefits and costs. The RIM test accounts for sunk costs (i.e., lost revenues) and as such is inappropriate to use for benefit-cost analysis.

(ii) The RIM test does not provide useful information about what happens to rates, in terms of the magnitude of impact. In other words, the RIM test results do not provide any context for regulators and stakeholders to consider the magnitude and implications of the rate impacts.

(iii) Application of the RIM test will not result in the lowest cost to customers. Maintaining low utility system costs, and therefore low customer bills, may warrant priority over minimizing rates.

(iv) Application of the RIM test can lead to perverse outcomes. The RIM test can lead to rejection of significant reductions in utility system costs to avoid what may be insignificant impacts on customers' rates.[1]

(b) The rate mitigation benefit referred to on slide 22[2] and the RIM test are different concepts.

The RIM test indicates the directional impact of a program on customer rates. It does not quantify the impact. The rate mitigation benefit, referred to on slide 22, is derived from a net present value analysis of the impacts of electrification initiatives on a cents per kWh basis. This allows for an understanding of both the direction and magnitude of the rate impact of the electrification initiatives included in the 2021 Plan. By comparison, the RIM test, if applied, would produce only a pass (result greater than 43 or equal to 1.0) or a fail (result less than 1.0).

[1] Please refer to Hydro's response to TC-CA-NLH-004, Attachment 1 at p. A-4.
[2] Slide 22 of the Utilities presentation from the Electrification Technical Conference held on February 1, 2022.