

1 **Q. Page 2-15, lines 8-10: Please explain why Newfoundland Power proposes to adopt**
2 **the Program Administrator Cost test as a secondary test to evaluate customer**
3 **energy conservation programs.**
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5 A. Newfoundland Power has proposed changes to the cost effectiveness evaluation
6 requirements for its customer energy conservation programs. These changes are
7 proposed in order to ensure the approach to program screening continues to reflect
8 relevant policy objectives as the provincial market and electrical system evolve.
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10 The Company's mandate requires delivery of electrical service in a manner consistent
11 with least-cost reliable service.¹ This principle applies to the provision of customer
12 energy conservation programs. Utility initiatives regarding energy conservation are also
13 consistent with the Province's energy policy, specifically the goal of supporting a major
14 shift in the uptake of energy efficiency and the principle of maximizing economic and
15 other benefits for homeowners and businesses.²
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17 Newfoundland Power is proposing use of the Total Resource Cost ("TRC") test as the
18 primary means of program economic screening, and the Program Administrator Cost
19 ("PAC") test as a secondary means. This approach ensures a comprehensive assessment of
20 program cost effectiveness from the perspectives of the utility and the customer.
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22 The TRC test evaluates customer energy conservation programs from the perspective of the
23 utility and the customer, including program participants and non-participants. It considers all
24 costs incurred by the utility, plus all costs incurred by customers, compared to the benefits of
25 avoided utility supply costs. It provides a holistic view of efficiency as a resource.³
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27 The PAC test, or Utility Cost test, assesses program cost effectiveness from the program
28 administrator, or utility, perspective. It compares the costs incurred by the utility to the
29 benefits of avoided utility supply costs. This test is consistent with the way utilities
30 typically evaluate the cost effectiveness of supply-side resources, and allows comparison
31 of efficiency and supply alternatives. The PAC test primarily ensures that the utility is
32 offering programs that result in least-cost electricity service.⁴
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34 The Company's proposal is consistent with current North American utility practice. Recent
35 research indicates Canadian and U.S. utility practice has changed to focus on the TRC test
36 and PAC test.⁵ All seven Canadian utilities surveyed and 71% of U.S. states require the TRC

¹ See Section 3(b) of the *Electrical Power Control Act, 1994*.

² See Government of Newfoundland and Labrador, *2007 Energy Plan: Focusing Our Energy*, page 7 and page 67 *et seq.*; and *Energy Efficiency Action Plan 2011*, page 3.

³ See the Ontario Independent Electricity System Operator, *Conservation and Demand Management Energy Efficiency Cost Effectiveness Guide*, March 2015, page 9. The TRC test has been criticized for considering all parties' costs, though not considering customers' non-energy benefits.

⁴ See Ontario Independent Electricity System Operator, *Conservation and Demand Management Energy Efficiency Cost Effectiveness Guide*, March 2015, page 11.

⁵ See Schedule B in the *Five-Year Conservation Plan: 2016 - 2020, Volume 2, Exhibits & Supporting Materials, Reports, Tab 1*.

1 test to pass in order for programming to be offered.⁶ Three of seven Canadian jurisdictions
2 and 12% of U.S. jurisdictions require the PAC test to pass in order for programming to be
3 offered.⁷ The RIM test, by comparison, is required in one Canadian province and 2% of
4 U.S. states.

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6 Newfoundland Power recommends a balanced approach by evaluating customer energy
7 conservation program cost effectiveness through the use of the TRC and PAC tests, but not
8 the RIM test. The programs proposed in the *Five-Year Conservation Plan: 2016 – 2020*
9 passed economic screening based on the TRC and PAC tests. Application of the RIM
10 test would result in elimination of all of Newfoundland Power’s residential customer
11 energy conservation programs in 2016.⁸

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13 The proposed approach ensures that programs can continue to be offered which are
14 accessible to a broad group of customers and remain consistent with least-cost service
15 provision.

⁶ Several jurisdictions, including British Columbia, utilize a modified TRC calculation which includes non-energy benefits.

⁷ In Canada, the PAC is the second most common primary screening requirement for programs. It is required in Ontario, Nova Scotia and Saskatchewan. PAC is also used in Prince Edward Island as a consideration for program design, though only the TRC & Participant Cost tests are required to pass for a program to be offered. In the U.S., the PAC is the third most common screening requirement for programs (behind TRC and the Societal Cost test). The PAC is explicitly required to pass for programs to be offered in 12% of U.S. states; and is also used in 65% of U.S. states as a secondary measure for program design and evaluation. See American Council for an Energy Efficient Economy (ACEEE) *A National Survey of State Policies and Practices for the Evaluation of Ratepayer-Funded Energy Efficiency Programs*, February 2012.

⁸ This is primarily due to forecast reductions in the marginal cost of energy and increases in customer rates. See response to Request for Information PUB-NP-021.