

**2021 Electrification, Conservation and Demand Management Application**

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1 Q. Reference: Pre-Filed Testimony of Patrick Bowman, page 3, lines 17-26,  
2 InterGroup notes that the National Standard Practice Manual also stipulates that  
3 rate impacts are an important part of the assessment and “should be examined  
4 using separate analyses” over and above any cost benefit tests which are not  
5 focused on rates, such as TRC and PAC.

6 a) Page A-4 of the National Standard Practice Manual provides a list of six  
7 limitations of the Rate Impact Measure test (“RIM”). Please explain why InterGroup  
8 is recommending an assessment of rate impacts, such as the RIM Test, as a  
9 primary tool for assessment.

10 b) Should tests, such as the RIM test and NPV test, that focus on rates and  
11 not cost effectiveness be considered a secondary analysis in the evaluation of  
12 CDM/electrification programs after the cost benefit tests determine that the  
13 programs are cost effective? Please reconcile with the statement noted in TC-  
14 PUB-IC-001.

15 A.

16 (a) and (b)

17 The basic rationale for requiring rate impact analysis is set out in TC-PUB-IC-  
18 001(a).

19 Appendix A of the National Standard Practice Manual (NSPM) addresses the  
20 specific “RIM Test” as a separate matter from rate impact analyses more  
21 broadly.

22 In respect of the RIM test itself, the NSPM sets out that:

23 The RIM Test can be useful for two purposes, both of which are  
24 related to rate impacts but not cost-effectiveness:

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- 1           ○ To determine whether a DER<sup>2</sup> or set of DERs is likely to increase  
2           or decrease rates; and
- 3           ○ To help inform whether a long-term rate, bill, and participation  
4           impacts analysis is warranted<sup>3</sup>

5 These uses of the RIM Test are entirely consistent with Mr. Bowman's response to  
6 TC-PUB-IC-1(a). In particular, a positive or slightly negative RIM can be beneficial to  
7 determining that a program is not likely to cause significant adverse impacts on other  
8 ratepayers (with the caveat that, like PAC, RIM is a ratio so the ratepayer assessment  
9 should also consider NPV calculations to see absolute magnitude not only relative  
10 magnitude).

11 On the six noted limitations of RIM, Mr. Bowman notes the following:

- 12       - The first limitation indicates RIM is not a good cost:benefit test because it  
13       includes "sunk costs" (which Mr. Bowman addresses as "fixed costs" in TC-  
14       PUB-IC-001(a)). The issue with this criticism is that Muskrat Falls is now a sunk  
15       cost, and the massive rate impact that requires mitigation would therefore be  
16       ignored in this approach. In Mr. Bowman's view, rate mitigation to address  
17       Muskrat Falls and the almost insurmountable rate impacts that are occurring  
18       and pending are the top issue facing NL Hydro's Island customers, and ECDM  
19       is one key component to that solution. To ignore sunk costs, and high existing  
20       bills because they are not "incremental" is not sensible in the Island context  
21       today.
- 22       - The second limitation indicates RIM conflates two different questions. Mr.  
23       Bowman agrees only to the extent that RIM might be used on its own for ECDM  
24       screening. Mr. Bowman does not recommend RIM be used on its own for  
25       ECDM screening.
- 26       - The third limitation indicates, in effect, that RIM is not sufficiently useful  
27       because it is a ratio not an absolute value. Mr. Bowman agrees and that is why  
28       he has indicated it should be used with an NPV analysis that shows whether  
29       the absolute value of any rate impact is material as well.

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<sup>2</sup> In the language of the NSPM, DERs are Distributed Energy Resources, which can include energy efficiency and electrification.

<sup>3</sup> NSPM, Page A-4

- 1 - The fourth limitation indicates that RIM may lead a utility to achieve lower rates,  
2 but higher overall bills because more units of energy are being used. This is  
3 precisely the point on the Island today, and is in fact a strong argument in  
4 favour of RIM and equivalent tests. The intent is to achieve lower rates and to  
5 expand the energy being used (e.g., electrification). This is not a detraction  
6 from using rate impact tests on the Island, it is an argument in favour.
- 7 - The fifth limitation is that strict adherence to a RIM test may lead to rejection  
8 of sensible potential system savings. Mr. Bowman agrees that this is a risk,  
9 and is part of the reason he has not advocated use of RIM as a screening tool  
10 in and of itself. For example, using the sample program set out in TC-PUB-IC-  
11 001(a), this program drastically fails the RIM test, but is acknowledged to likely  
12 be something the utility may want to pursue anyway. But, having pursued the  
13 program, the utility may want to consider ways to make distributional impacts  
14 more fair as part of cost allocation or rate design, which is beyond the scope  
15 of this proceeding. However, if the distributional fairness impacts are  
16 excessive, the utility (or regulator) may also determine that the program is not  
17 advisable.
- 18 - The sixth limitation noted is effectively the same as the first and second –  
19 namely use of RIM on its own may give misleading results about whether to  
20 proceed with a program because it is not measuring only the incremental  
21 effects. As noted, Mr. Bowman agrees and that is why RIM (and related  
22 equivalent rate impact assessments) are not recommended to be used by  
23 themselves.

24 Most importantly, however, immediately following the noted list of limitations of RIM,  
25 the NSPM goes on to a section on “Better Approaches for Analyzing Rate Impacts”<sup>4</sup>  
26 which notes the very same considerations Mr. Bowman has set out in TC-PUB-IC-  
27 001(a). That is, “a thorough understanding of the implications of DER rate impacts  
28 and cost-shifting requires analysis of three important factors: rate impacts, bill  
29 impacts, and participation impacts”. The rate impact analysis goes on to state the  
30 importance of addressing distributional impacts, and notes that:

31 There is no bright line to determine how to balance the cost-  
32 effectiveness results with the rate, bill and participation analysis results.  
33 Nonetheless, the results of both analyses can be used to inform the  
34 balance. Regulators and other stakeholders can use these two types of

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<sup>4</sup> NSPM, Page A-5.

1           analyses to assess whether any expected long-term rate impacts are  
2           warranted in light of the cost-effectiveness results, the bill reductions,  
3           and the participation rates.<sup>5</sup>

4           In short, contrary to the suggestion that the NSPM rejects RIM Tests, the NSPM is  
5           highly supportive of screening for rate impacts and distributional concerns, and doing  
6           broad rate impact assessments, including assessing whether a program should  
7           proceed if the rate impacts are not warranted. It is acknowledged that the NSPM  
8           clearly rejects rote RIM Test assessments as a sole means of screening ECDM  
9           programs as a cost-effectiveness test, which Mr. Bowman entirely agrees with:

- 10           - Mr. Bowman does not recommend RIM be used alone, but instead with other  
11           rate impact assessment tools like NPV analysis.
- 12           - Mr. Bowman does not recommend rate impacts assessments be used as the  
13           sole screening.
- 14           - Mr. Bowman does not recommend the use of rate impact analyses as a cost  
15           effectiveness test, but instead recommends their use in combination with cost  
16           effectiveness tests such as PAC to ensure distributional impacts and rate  
17           mitigation remains a priority.

18           In this regard, Mr. Bowman's recommendations are in fact entirely consistent with  
19           Appendix A of the NSPM.

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<sup>5</sup> NSPM Page A-6.