Q. Consumer Question: Re: Conservation and Demand Management: In vol. I, p. 31, MHI explains that, in the generation planning process, "Demand side management is treated as if it were generation, as it represents a reduction from the base load forecast. The economics of DSM programs should be evaluated to ensure that they make a positive contribution to the overall financial well-being of the province." However, the approach used by Nalcor appears to be very different. Section 1.8 of vol. II begins: "It should be noted that the domestic forecast does not include any specific, exogenous adjustment for specific Conservation Demand Management (CDM) programs. The NLH method of capturing and estimating CDM effects is through the technological change variable contained in the regression equations." MHI then explains that this variable has a coefficient of -35.37, meaning that average domestic use is forecast to decline by 35.37 kWh per year over 20 years. In your opinion, is it appropriate to presume that this change will occur at the same steady pace implied by the use of a fixed technological change coefficient, regardless of the level of effort and investment in CDM?

A. Conservation effects can be classified into two groups: naturally-occurring conservation and incentive-based conservation. Naturally-occurring conservation results from improved appliance energy-efficiency standards, improved building standards for new construction, retrofit improvements to existing buildings and consumer behavior changes (e.g. turning lights off). Incentive-based conservation results from utility sponsored CDM Programs. NLH has had limited success with CDM Programs and to date, the response to CDM Program and initiatives has been modest and lagging targets. Therefore, the technological change variable in the Load Forecast is primarily representative of naturally-occurring conservation effects.

The Nalcor Load Forecast assumes that the technological change variable is expected to remain constant over the forecast period. This means that the forecast assumes that naturally-occurring conservation will remain at a steady rate, similar to the past. This assumption is very conservative and leads to a forecast that is lower for the domestic and general service sectors. In the future, naturally-occurring conversation may be more

difficult to achieve and should occur at a slower rate since the most cost-effective conservation practices have already been adopted.

Naturally-occurring conservation should be included in the load forecast, but CDM Program conservation should not be included in the load forecast. The energy savings associated with varying levels of CDM investments should be included as a supply-side option, so CDM investments can be evaluated on an equivalent basis to other generation supply options.

MHI did not analyze the effectiveness of any of Nalcor's CDM Programs.