**Q: (Liberty December 17, 2014 Report to Board on *Supply Issues and Power Outages Review Island Interconnected System* addressing Newfoundland and Labrador Hydro) It is stated (page 4): "*Concern about the ability to add further generation in the immediate future also made demand reduction efforts an important area of inquiry".* Is demand reduction a viable alternative given the time it takes to achieve meaningful quantities? According to Conclusion No. 2.21, a Hydro/Newfoundland Power joint report on short-term demand reduction program alternatives will not be submitted to the Board until September 15, 2015. Therefore, new demand reduction initiatives will provide assistance only during the winter of 2016/17 since Muskrat Falls is scheduled for service in 2017. Does experience elsewhere suggest that meaningful amounts of demand reduction can be brought on line in a year (other than interruptible/capacity assistance contracts which now appear to have reached maximum levels on the IIS)?**

A. First, it is not analytically sound to analyze short-term (*i.e.*, pre-Muskrat Falls) opportunities under the assumption that there is no potential for delay in the availability of capacity and energy from Muskrat Falls. To the contrary, experience with mega-projects in the utility industry lends credence to the need for a robust consideration of schedule outcomes. Second, it may be possible to expedite efforts to introduce pilot or other demand reduction programs for the purpose of getting them in place expeditiously. Every effort should be made to advance that date as much as is possible.

Our discussions with Newfoundland Power led us to believe that the Company has optimism (but not certainty) that material demand reductions may be possible in the short term. The thinness of reserve margins that Hydro is experiencing now and will continue to experience for the next number of years strongly compels joint consideration of: (a) the results of a robust and quantitative analysis of Muskrat Falls schedule slippage potential, (b) resulting reserve positions under the scenarios that analysis shows to have material potential for occurrence, (c) determination of where and by how much reserves fall short under each such scenario, (d) short-term demand reduction options and their likely reductions for each such scenario, (e) costs of securing short-term demand reductions, and (f) comparison against costs of supply alternatives (assuming any are available).