Q. **Reference: Volume I, Section 2.1.3, Issue Topic: System Reliability and Customer Operations**

Please provide a listing of all capital projects from 2019 to 2027 test year that, while otherwise justified or necessary, Hydro did not complete or deferred due primarily to their impact on customer rates.

A. Newfoundland and Labrador Hydro's ("Hydro") capital investment philosophy is founded on its obligation to invest responsibly in the electrical system to the benefit of its customers; capital work is not cancelled or deferred solely based on its impact on customer rates. Hydro is committed to investing in capital in a manner that meets its legislated mandate to provide service and facilities that are reasonably safe and adequate, and just and reasonable, and to deliver power to consumers at the lowest possible cost, in an environmentally responsible manner, consistent with reliable service.

Hydro optimizes expenditures by only targeting work deemed critical to safety and reliability, and ensuring such work cannot be deferred into future years. As such, Hydro would only propose the minimum amount of work required from a technical perspective, which will lead to responsible capital investment. The vast majority of Hydro's capital expenditures, excluding system-growth related major projects, consist of asset renewal investments for refurbishment or replacement of existing assets. To identify asset renewal requirements, Hydro maintains comprehensive asset plans which consider asset age, condition, performance, criticality, and vendor support. In response to the Board of Commissioners of Public Utilities' ("Board") findings as described in Board Order No. P.U. 13(2016), Hydro undertook a review of its long-term asset plans to ensure timely capital and maintenance intervention to ensure prudent, timely investment in its assets. Hydro maintains this rigor in developing and managing its asset plans and capital investment strategies. Examples of processes or procedures which Hydro implemented in response to the Board's findings include:

- A stronger focus on planning the execution of both capital and preventative maintenance (“PM”), with a priority to utilize internal resources for completion of PM work and, where necessary, contract out capital work to ensure Hydro minimizes deferral of PMs.
- An internal capital work request to manage the absolutely and urgently required capital expenditure of terminal station equipment, including transformers and circuit breakers. Examples of this work are circuit breaker in-service failures, transformer in-service failures, transformer bushing in-service failures or incipient failures identified through testing, etc. This type of expenditure will then be either captured in the Terminal Station In-Service Failure Project or a Project Change Notice for existing and ongoing programs.
- The development of a Terminal Station Asset Management Strategy strategic document. This document outlines the criteria for refurbishment or replacement for terminal station assets, including circuit breakers and power transformers. This document was first developed in 2016 for the 2017 Capital Budget Application (“CBA”) and has been submitted with Hydro's annual CBA, with updates as required.

For clarity, Hydro does not consider the terms “justified capital expenditures,” work that is “most critical to system operations,” and work that is “absolutely and urgently required” to represent separate categories or standards of capital investment. A capital expenditure may be justified from a technical, operational, safety, legislative, environmental, or other perspective, while still permitting flexibility in the timing of the investment. The references to work that is “most critical” or “absolutely and urgently required” reflect Hydro’s prioritization and pacing of its overall capital portfolio, particularly in circumstances where Hydro is seeking to limit capital expenditures to the minimum prudent level while maintaining safe and reliable service. Hydro considers operational risk, asset condition and criticality, executability, total investment, and cumulative system risk in determining which justified expenditures must proceed in a particular year and which may prudently be deferred.

Consideration of customer cost impacts does not mean that otherwise necessary work is deferred primarily because of its impact on customer rates. Rather, where Hydro determines that the timing of an investment can be deferred without creating an unacceptable increase in safety, reliability, environmental, legislative, or operational risk, deferral may be selected as part of balancing the cost impact to customers with the required level of service. Conversely, where deferral would compromise reliability, safety, legislative compliance, or Hydro's ability to meet system requirements, Hydro does not consider deferral to be an appropriate alternative. This approach is reflected in Hydro's 2027 capital planning process, under which each proposed program or project was assessed for the feasibility and risk of deferral.

Hydro also distinguishes between the deferral of a proposed capital investment during the planning process and the carryover or cancellation of work following Board approval. Planned deferrals generally reflect a determination that work can prudently be undertaken in a later period. Carryover may instead result from matters affecting execution, such as resource or outage availability, procurement or material delays, design challenges, or the need to reassess scope, timing, budget, or justification. Similarly, an approved scope may subsequently be reduced or cancelled where new information or changed conditions affect the original justification. These circumstances do not, in themselves, indicate that the work was deferred because of customer rate impacts.

Where deferral of a program or project is determined to be low risk, or proposals are no longer required due to changes in system operations, scopes merged with other capital projects, or projects for which non-capital alternatives have been identified, Hydro continues to select that option in an effort to balance the cost impact to customers with the level of reliability required. Programs and projects that have been deferred or cancelled are listed within Hydro's CBAs from 2023 to 2027.[1]

There are situations where approved programs or projects planned for completion may be cancelled in whole or in part when new information or conditions impact the original scope justification. These situations are detailed within Hydro's Capital Expenditures and Carryover reports, filed with the Board on April 1 of each year.

[1] Hydro did not track specific decisions made regarding capital project cancellation or deferral during the CBA process prior to the implementation of the provisional CBA Guidelines, which were issued by the Board of Commissioners of Public Utilities in January 2022.