Q. **Reference: Volume I, page 2.50-2.51, Productivity Allowance**

Hydro states that it included a $4 million productivity allowance to mitigate the increasing operating costs within the 2027 Test Year and the productivity allowance has been allocated across departments as a percentage of total budgeted dollars.

a) How does Hydro anticipate to achieve the productivity allowance in the 2027 Test Year?

b) Provide any instructions or guidelines that were issued to staff with respect to this allowance.

A. **a)** In the Board of Commissioners of Public Utilities ("Board") Order No. P.U. 49(2016), the Board stated that the purpose of a productivity allowance is "*to provide an incentive to manage costs and find efficiencies.*" Newfoundland and Labrador Hydro ("Hydro") anticipates achieving the productivity allowance through ongoing cost management, operational efficiencies, and productivity improvements across the organization. Cost management efforts have continued since Hydro's last general rate application ("GRA") and additional emphasis is in place with Hydro's commitment to the productivity allowance as outlined in the 2026 GRA.

Hydro has not assigned a predetermined savings amount to individual initiatives. Rather, the productivity allowance reflects management's expectation of ongoing cost management processes and continuous improvement. The cumulative impact of efficiency opportunities and process improvements identified and implemented through the test year, avoided costs, and prudent cost management activities undertaken throughout the organization will mitigate operating cost growth and contribute toward achievement of the productivity allowance.

To promote organization-wide accountability for identifying and implementing efficiency opportunities, the productivity allowance has been allocated across departments based on each department's proportion of total budgeted operating expenditures. The allocation is not intended to prescribe specific reductions within individual departments. Rather, it reinforces Hydro's expectation that all areas of the business continuously challenge existing practices, scrutinize expenditures, and identify opportunities to improve productivity while maintaining safety, system reliability, regulatory compliance, and customer service. This is consistent with Grant Thornton's observation in the 2001 GRA, that this approach provides management with the latitude to determine where further cost savings or efficiencies can be best achieved. Attempting to reduce individual expense categories may impede the ability of Hydro management to make decisions on how and where efficiency improvements are best implemented.[1]

Hydro's approach recognizes that sustainable productivity improvements are often realized through the cumulative impact of operational enhancements implemented over time rather than through a small number of discrete cost reduction measures. By empowering business unit leaders to identify and implement efficiencies within their areas of responsibility, Hydro strengthens operational ownership, accountability, and a culture of continuous improvement.

The resulting efficiencies support Hydro's ability to moderate growth in its revenue requirement and mitigate long-term cost pressures while continuing to provide safe and reliable service.

As detailed in its evidence, Hydro continues to focus on opportunities through workforce management, contracting and procurement practices, work planning and execution, capital planning, and the strategic use of technology and data analytics. While these efforts do not necessarily result in overall year-over-year reductions in operating expenditures, they help to moderate expenditure growth and avoid costs that would otherwise be incurred. Accordingly, the customer benefit of these initiatives is reflected not only through direct

[1] "Newfoundland and Labrador Hydro – 2001 General Rate Hearing – Grant Thornton LLP – Supplementary Evidence," Grant Thornton LLP, December 13, 2001, p. 4/11–19.

cost reductions, but also through the mitigation of future cost increases and improved utilization of resources across the organization.

Hydro expects to achieve the productivity allowance through a combination of:

- Continued scrutiny and management of labour and non-labour expenditures;
- Optimization of workforce deployment and internal resource utilization;
- Procurement and contracting strategies that reduce supply chain, cost and schedule risks;
- Improved planning and execution of operating and capital work;
- Increased use of technology, automation, and data analytics to support decision-making; particularly those technologies that enable Hydro to reduce travel, fuel consumption, and contractor reliance; providing direct savings for customers; and
- Avoidance of future costs through proactive asset management and outage coordination.

In addition to the examples provided within Chapter 2 of Hydro’s 2026, recent examples which illustrate the types of activities that are expected to continue contributing to productivity improvements include:

- Hydro is currently conducting a review on usage of information systems to better understand and optimize overall license utilization. This review is currently focused on removing or reallocating licences where appropriate.
- Merging of maintenance crews to support its combustion turbine fleet on the Avalon Peninsula to improve coverage and pool asset knowledge. This has resulted in improved availability of resources to complete planned and unplanned work, enhanced internal transfer of knowledge amongst personnel, and has levelized overtime amongst the employee base to support these assets.
- The development of a thermography program in Bay d’Espoir which uses infrared cameras to inspect equipment while in operation, without requiring a planned shutdown of the equipment. This program has enabled a reduction in the frequency

of physical inspections and helps to prevent unplanned outages by using the information obtained to appropriately plan the timing of intervention. Use of the technology to complete roof inspections has also avoided outside contractor costs.

- Adoption of a regional warehouse approach to directly support the Labrador region, receiving, holding and managing inventory in Wabush instead of sourcing materials through Newfoundland. Benefits of such an approach include reduced transportation costs, improved inventory availability and delivery timelines and increase in operational readiness and overall supply chain reliability throughout the region.

Beyond operating expenditures, Hydro continues to identify opportunities to reduce or avoid customer cost impacts through disciplined capital planning, outage coordination, and the optimization of thermal generation and fuel consumption. These initiatives can have a significant impact on customer costs and Hydro's revenue requirement. For example, shutting down a unit at the Holyrood Thermal Generating Station ("Holyrood TGS") one day earlier than planned can avoid more than $230,000 in fuel costs.[2] Similarly, in 2025, Hydro retired Fuel Oil Storage Tank 2 at the Holyrood TGS, avoiding approximately $4 million in overhaul expenditures that would otherwise have been required to maintain the asset in service. Hydro's coordinated outage planning within its 2027 Capital Budget Application, including the clustering of major capital work at Bay d'Espoir, Cat Arm, and Paradise River, is expected to optimize outage windows, minimize unit downtime, improve resource utilization, and avoid additional costs associated with separate outages and mobilizations.[3]

Hydro has focused on evolving its business to achieve long-term, sustainable cost savings and productivity gains. As discussed in Hydro's evidence, operational efficiencies may serve to offset upward cost pressures rather than generate standalone savings. Beginning in 2026, Hydro has incorporated a productivity allowance and will actively pursue achievement of the full $4 million in operating cost savings reflected in the 2027 Test Year. While Hydro is committed to realizing these savings, the benefits of operational enhancements and

[2] 24 hr/day x 70,000 kW x $0.14/kWh = $235,200.
[3] "2027 Capital Budget Application," Newfoundland and Labrador Hydro, July 14, 2026, vol. II, sch. 7, proj. 5.

efficiencies identified may not be fully realized within the test year or may not translate directly into a corresponding reduction in 2027 actual costs. In addition, productivity gains may be partially offset by prudent cost increases, inflationary pressures, and other uncontrollable changes in the business.

Hydro is cognizant of customer concerns regarding electricity rates and will work to keep all costs to serve customers, not only operating costs, at the lowest possible levels. In parallel, Hydro seeks to maximize returns for customers using export and import opportunities to benefit customers either by offsetting Hydro's supply costs or through the funding of rate mitigation.

b) Direction regarding the productivity allowance was communicated throughout the organization by Hydro's senior leadership. Leadership communicated Hydro's commitment to achieving additional efficiencies and cost savings and advised that these expectations had been incorporated into approved operating budgets.

Hydro has focused on long-term sustainable operational cost savings, avoidance of operating cost increases and achieving operational efficiencies since its last GRA, as discussed in Hydro's response to PUB-NLH-081 of this proceeding. To support achievement of the productivity allowance within this application, Hydro integrated productivity and cost management discussions into its regular business performance and financial review processes throughout 2026. These discussions provide a structured forum for management to review expenditures, challenge existing practices, identify efficiency opportunities, and monitor progress toward achieving productivity targets included in the 2026 Forecast and 2027 Test Year.

Members of leadership were directed to continue identifying sustainable opportunities to improve productivity, avoid costs, and enhance efficiency while maintaining safety, reliability, regulatory compliance, and customer service standards. As a result, achievement of the productivity allowance forms part of Hydro's ongoing management and oversight processes rather than being dependent on any single initiative or program.

Please refer to PUB-NLH-027, Attachment 1 for a copy of the email correspondence provided to Senior Leadership on expectations of achieving the 2026 and 2027 Test Year productivity allowances.

Outlook

Business Performance meetings

From Lisa Hutchens <LisaHutchens@nlh.nl.ca>
Date Wed 5/13/2026 12:27 PM
To Hydro Senior Leadership <HydroSeniorLeadership@nlh.nl.ca>
Cc Matthew Dwyer <MatthewDwyer@nlh.nl.ca>

Good day everyone

Thank you for your recent participation in our Q1 2026 Business Performance meetings. Cost management has been a long-standing priority at Hydro, and as discussed in those meetings, we are proposing to evolve our approach, bringing together Cost Management and Business Plan oversight across all areas of the organization, including both regulated and non-regulated activities.

As you're likely aware, we are preparing to file our General Rate Application with the Public Utilities Board for appropriate cost recovery and rate setting. We know that customers are concerned about the rising cost of living, including electricity rates. And so, as the people's Crown utility, we have a responsibility to manage our budgets with customer impacts top of mind.

To help achieve this, as part of the GRA, we have committed to achieving additional cost savings, which have been reflected in approved operating budgets. These meetings will provide an opportunity to generate discussions regarding potential efficiencies, avoided and direct cost savings to help meet our Productivity Allowance Targets set out in budget 2026.

As we continue to face cost pressures and heightened scrutiny, I know we all feel a responsibility to actively support rate mitigation for customers. This obligation reinforces the need for strong discipline over all of our costs and for ensuring our operations are carried out as efficiently and effectively as possible. Every dollar saved through prudent operations, or earned through increased revenues, benefits customers directly. In 2025 alone, Hydro contributed $554 million toward rate mitigation.

Managing and containing operating cost growth is not a one-time effort. Identifying, evaluating, and implementing sustainable efficiencies that contain or reduce ongoing operating costs must remain a continuous focus across the organization. These efforts are essential to protecting customers.

At the same time, all cost containment initiatives must be pursued carefully. Our commitment to safe and reliable service remains paramount. Proposed measures must be assessed to ensure they do not create unintended negative impacts on safety, reliability, or system performance.

We are not looking to create a new productivity or cost management "initiative". What I expect and ask of you all as our senior management team, is to please continue challenging existing practices, identifying sustainable efficiency opportunities, and further embedding cost consciousness into day-to-day decision-making, while continuing to maintain and strengthen appropriate oversight, controls, and accountability.

In many cases, these efficiencies that you and your teams help implement may offset upward cost pressures rather than generate stand-alone savings.

To help us continue to collaboratively manage and identify ways to manage costs for customers, we will be scheduling business performance meetings through 2026. Attendance at these sessions is expected, along with active engagement with your Vice President and peers to achieve overall budget commitments.

Thank you for your leadership and focus on these priorities.

Lisa

Lisa Hutchens
VP Chief Financial Officer
T: (709) 737-1360 | M: (709) 685-5590
LisaHutchens@nlh.nl.ca | www.nlhydro.com

Hydro is the people's utility that you can count on - providing safe, cost-conscious, reliable electricity while harnessing sustainable energy opportunities to benefit the people of Newfoundland and Labrador.