Q. **Volume 1: 2021 Capital Projects Overview**

Hydro states on page 1, line 15, that approximately 70% of the $107.5 million requested in 2021 relates to new projects.

Please highlight any actions that Hydro has taken in response to the current economic conditions within Newfoundland and Labrador to control and/or reduce capital expenditures while maintaining reliable service.

A. Newfoundland and Labrador Hydro ("Hydro") recognizes that capital investment has a material impact on customer rates, noting in its evidence submitted through the *Reference on Rate Mitigation and Options* proceeding that "Hydro continues to enhance its capital planning approach, particularly in light of the rate pressures in the province at this time."[1] Hydro began increased scrutiny of its five-year capital spending plan in 2018 and committed through its *Reference on Rate Mitigation and Options* proceeding evidence to maintain a reduced level of expenditure, or continue to find areas to reduce costs, where possible, in the future. This commitment was made recognizing that capital investment must balance the needs of the system and customers; reduction in capital investment in all areas will be pursued but required capital investment will be undertaken if justified.

Hydro's 2020 five-year capital plan was 32%[2] less than the 2018 five-year plan. In its 2020 Capital Budget Application, Hydro's five-year plan included investments for 2021 in the amount of $111 million. Through continued focus on responsible cost management, Hydro identified additional opportunities to realign projects based on asset condition and prudently defer capital investment to later years, resulting in a 2021 capital budget submission of $107.5 million. This

[1] "Reference to the Board on Rate Mitigation Options and Impacts – Evidence of Nalcor Energy & Newfoundland and Labrador Hydro," Nalcor Energy and Newfoundland and Labrador Hydro, September 20, 2019, sec. 4, p. 17 of 38/23–24.
[2] Reflective of Board approved capital budget amounts, budgeted supplemental amounts (net of contribution in aid of construction amounts), less growth projects (such as TL 266, TL 267 and Muskrat Falls to Happy Valley Interconnection Project).

level of expenditure was able to be maintained even with the extension of Holyrood Thermal Generating Station which resulted in an $11.4 million in investment not anticipated in the 2020 Capital Budget Application. Evidence of Hydro's commitment to balancing cost and reliability can also be seen when comparing the 2021 capital plan for rural generation at $6.6 million. This is significantly less than the five-year average of $12.5 million. This reduction is mainly due to the change in asset management programs around diesel generator overhauls and replacements.

As outlined in the 2021 Capital Budget Application, Hydro anticipates major capital investment requirements in the upcoming five-year capital plan mainly associated with the Bay d'Espoir Penstock Life Extension and the Southern Labrador Long-term Solution for Supply. Hydro recognizes these capital investments will impact rates and Hydro will continue to look for opportunities to reduce capital investment where it is prudent and reasonable to do so.

As committed through Hydro's evidence submitted through the *Reference on Rate Mitigation Options and Impacts* proceeding, Hydro has identified capital planning as an area of priority in its Efficiency and Effectiveness Plan. The goal of this work is to improve capital investment planning to ensure continued balancing of costs and reliability in the provision of service to customers.