Q. **Re: 2012 Capital Projects Overview**

Given the uncertainty regarding the decision to proceed with the Labrador Interconnection and the uncertainty regarding the time period that the Holyrood Thermal Generating Station (the "Plant") will function as a standby facility, how has Hydro considered such uncertainty in the development of its 2012 capital budget proposals and its 5 year plan for the Plant?

A. In developing its 2012 capital plan, Hydro has assumed that Holyrood will remain available to provide full plant capability until 2020, however following completion of the Labrador Interconnection, generating output will be reduced to minimal levels (i.e. production only when units are being exercised to maintain operational readiness). This approach assumes a shortened life for plant elements related to power production, and an ongoing asset life for plant elements related to synchronous condenser operation. Overall, this approach establishes the minimum operational expectations, and hence capital requirements, for the facility well into the future.

In the alternative, Hydro could have assumed that an Isolated Island generation expansion scenario would prevail. This would have translated into larger capital requirements for Holyrood in the near future. What is important to note however, is that all Holyrood projects proposed under the Labrador Interconnection scenario would still be required under the Isolated Island scenario.

Recognizing that the Labrador Interconnection is currently the preferred generation expansion scenario, and recognizing that work proposed under the current five-year plan is common to both scenarios, the only uncertainty is whether there is in fact

under-investment at Holyrood should the Labrador Interconnection not receive sanction. This risk is mitigated by the fact that a sanction decision on the Labrador Interconnection is anticipated in 2012, which will permit adjustment of the 2013-2017 plan should the Labrador Interconnection not receive sanction.

One potential downside of the approach taken by Hydro in constructing its plans for Holyrood is that the analysis of alternatives for projects related to the steam/thermal/fuel aspects of the plant have a horizon of ten years, which will produce a preference for alternatives that have payback periods of ten years or less (even if some alternatives have lower cumulative present worth over the longer term). However, recognizing that ten years represents a sizeable payback and discounting period, the risk of selecting a less than optimum alternative in the event that the Labrador Interconnection does not proceed, is reduced.

By following this approach, Hydro has chosen the least cost approach, consistent with safe, adequate, and reliable service. This allows for maximum alignment with the preferred generation expansion alternative, avoiding potentially unnecessary capital expenditures at Holyrood, while providing the opportunity for adjustment should the Labrador Interconnection not receive sanction.