

1 Q. Further to the response to PUB-NLH-38 which sets out the significant impact on the
2 revenue requirement arising from the forecast capital expenditures, explain how
3 Hydro considers the impact of capital expenditures on electricity rates in the
4 preparation of its annual capital programs?

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7 A. Hydro considers the impact of capital expenditures on electricity rates through the
8 selection of least cost alternatives where alternatives exist, and ensuring that
9 capital expenditures are incurred no sooner than necessary. Hydro complies with
10 the Public Utilities Act's Section 54 – "Duty of a power company to supply electrical
11 energy", and its capital projects to meet load growth are considered first in that
12 light. The second consideration is the effect upon rates, as stated previously, by
13 considering alternatives. Sustaining capital is considered in the same light. For all
14 capital projects proposed by Hydro, the technical judgement of its personnel to
15 determine that the projects are required and the least cost alternative is chosen to
16 limit the impact on ratepayers. It is, obviously, within the authority (Section 54(4))
17 of the Board to relieve Hydro from its obligation to supply power, but Hydro
18 assumes it will be required to meet the obligation to serve the customers.

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20 Hydro prepares its capital plans in such a fashion as to provide least cost electricity
21 within the constraints it operates, which include safety, environmental and other
22 legislative compliance and reliability. To the extent Hydro can forestall capital
23 investment or select lower cost alternatives on a present worth basis while still
24 meeting its constraints, Hydro will propose to do so. It should also be noted that
25 Hydro selects and proposes projects that produce lowest cumulative present worth
26 over the study horizon for the issue being addressed. While this may conceivably

- 1 produce higher short-term rate impacts compared to alternatives, Hydro maintains
- 2 a long-term focus on addressing issues and keeping rate impacts to a minimum.