Q. (response to CA-NP 65) "Based upon the limited information provided it appears that reliability performance for the two utilities is similar", and "It appears to Newfoundland Power that the development of the Delaware Standard was a specific and considered regulatory response to a perceived risk (i.e., underinvestment) to distribution reliability which resulted from industry restructuring in the State of Delaware." Given that NP performance is similar to Delaware, are additional expenditures by NP to improve reliability performance justified? Does NP believe that there is a point at which additional expenditures on reliability improvements may exceed the value consumers place on improved reliability or does NP have information that its customers are willing to spend any amount for reliability improvement? If so, please provide the information.

A. Newfoundland Power observes that Delmarva Power's 2006 *transmission and distribution* capital costs of $86 million were well in excess of Newfoundland Power's *total* 2006 capital costs.[1]

The majority of Newfoundland Power's annual capital expenditure is required to replace aging plant which is at the end of its useful service life although the expenditure will have a general tendency to improve overall system reliability.

Additional capital expenditures by Newfoundland Power, such as those undertaken under the Distribution Reliability Initiative, are aimed at targeted improvement in distribution reliability performance and will continue to be proposed where justified to ensure reasonable reliability levels for Newfoundland Power's customers.[2]

While Newfoundland Power expects that customers are not "…willing to spend any amount for reliability improvement…", it expects that targeted capital expenditure on distribution feeders exhibiting forced outages far above the system average will continue to be justified based upon sound engineering analysis and the reasonable expectations of the customers served by those feeders.[3]

Please refer to the responses to CA-NP-68 and CA-NP-69.

[1] This observation indicates the caution required in direct comparisons to the cost/reliability relationship in Delaware with that in Newfoundland as is implied by this request for information. Newfoundland Power does not intend it to imply that the fact that Delmarva Power expends significantly more on transmission and distribution justifies any greater, or different, expenditure by Newfoundland Power.

[2] All such expenditures require the prior approval of the Board under the provisions of the *Public Utilities Act*. Section 3 (b) (ii) of the *Electrical Power Control Act, 1994* requires electrical facilities to be managed and operated in a manner that results in *equitable* consumer access to power.

[3] The poorest performing distribution feeders in Newfoundland Power's system currently exhibit forced outages 3 to 5 times the system average.