

- 1 **Q:** (Liberty December 17, 2014 Report to Board on *Supply Issues and Power*
2 *Outages Review Island Interconnected System* addressing Newfoundland and
3 Labrador Hydro) It is stated (page 5): “*The program leading to the Interim*
4 *Report led us to conclude that Hydro’s execution program gives more visibility to*
5 *cost effectiveness than to preventing the kinds of equipment failures that have*
6 *caused widespread outages”. How much visibility should an electric utility give*
7 *to cost effectiveness in light of the importance customers place on rates?*
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- 10 **A.** It is appropriate for a utility to give significant importance to costs in making
11 decisions that affect reliability (both “blue sky” and in terms of ability to withstand
12 weather conditions). Moreover, Liberty recognizes that stakeholders may have
13 different views on the added value that increased cost brings in terms of increased
14 reliability. Proceedings such as rate cases and this investigation give stakeholders
15 an opportunity to weigh in on that value proposition.
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- 17 However, when it comes to asset management (the context in which Liberty made
18 the quoted statement) consideration of cost effectiveness should be made when
19 things like inspection, maintenance, and replacement schedules are made in the first
20 place (and in some jurisdictions implicitly endorsed through costs allowed to be
21 included in rates). Once made, decisions not to apply those schedules in order to
22 save cost become troublesome when they become too frequent.