

1 Q. **Reference: Application**

2 Please explain and show how customer preferences have been incorporated in the 2021 Capital
3 Budget Application.

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6 A. Newfoundland and Labrador Hydro's ("Hydro") capital investment philosophy is based on its
7 obligation to responsibly manage the electrical system, and its investments in the system, on
8 behalf of customers. The proposed capital expenditures for 2021 are required to support the
9 safe, reliable provision of service to customers.

10 In determining whether a capital proposal is appropriate, Hydro considers various factors
11 including:

- 12 • System performance and reliability criteria;
- 13 • Hydro's long-term asset management strategy;
- 14 • Regulatory and legislative compliance;
- 15 • Load growth and system planning criteria;
- 16 • Hydro's experience with the assets, including their condition and performance;
- 17 • Ongoing operating and maintenance costs; opportunities for cost efficiencies; and,
- 18 • Changes to operating conditions.

19 The overall needs and preferences of customers are also considered with a focus on striking an
20 appropriate balance between costs and maintaining an acceptable level of reliability.

1 In late 2018, Hydro conducted a digital engagement (as part of the Reliability and Resource
2 Adequacy Study process) which was open to all electricity consumers in the province to
3 participate, and resulted in more than 2,000 people completing Hydro’s survey. Some of the
4 findings include:

- 5 • 82% of respondents indicated they believe Newfoundland and Labrador’s power system
6 to be highly reliable;
- 7 • 71% said “I am comfortable with our power system’s current level of reliability [and]
8 prefer additional investment be made cautiously”; and
- 9 • The majority (59%) of respondents said their preference was a “good” level of reliability
10 with a lower impact on cost; another 34% preferred “better” reliability with a moderate
11 impact on cost, and 6% preferred “best” reliability with a higher impact on cost.

12 Particularly, over the past two years since this engagement, Hydro has been deliberately
13 focused on reducing its overall capital investment across the system, especially considering the
14 large pending capital investments that will be required on the larger system, such as
15 investments required in the Bay d’Espoir penstocks and a solution for supply of the Labrador
16 community of Charlottetown. This effort involves carefully adjusting investment timing to later
17 implementation for some projects as well as implementing more condition based investments
18 as opposed to time based investments.

19 Further, there are some examples of projects in Hydro’s 2021 Capital Budget Application that
20 are reflective of customer preferences. For example, the proposal to modernize street lights by
21 replacing, over time, existing mercury vapour and high pressure sodium streetlights with LED.¹
22 Communities have expressed support for moving to more energy efficient LED street lights.
23 Increased energy efficiency, along with lower maintenance, increased reliability, and better
24 quality together with the decrease in costs of LEDs supports systematic replacement of existing
25 streetlights and will ultimately result in reduced street and area light rates to customers.

¹ Light emitting diode (“LED”).