

1 Q. **Reference: NP-NLH-023**

2 Hydro indicates that it did not calculate NPVs for the alternatives for the transformer upgrade.

3 a) For which projects in its CBA did Hydro carry out NPV analyses?

4 b) What discount rate did it use in its NPV calculations and why did it choose that rate?

5 c) Where Hydro performed NPV analyses, would the conclusion of each be affected if it had
6 used a discount rate that was 1 percentage point higher? 2 percentage points higher?

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9 A. a) Newfoundland and Labrador Hydro (“Hydro”) completed an analysis¹ to confirm the least-
10 cost alternative for four projects proposed in its “2023 Capital Budget Application”²:

11 i. Refurbish Workshop Roof (2023) – Holyrood³

12 ii. Replace Intermediate Fuel Storage Tanks (2023–2024) – Nain⁴

13 iii. Diesel Genset Replacement Program⁵ (2023–2025);⁶ and

14 iv. Replace Diesel Shop Building (2023–2025) – Bishop’s Falls⁷

15 b) The discount rate used in the analysis of alternatives for these projects was 5.25%. The
16 discount rate reflects Hydro’s forecast incremental weighted average cost of capital at the
17 time the analyses were completed.

18 c) Using a discount rate of 6.25% or 7.25% did not affect the least-cost alternative outcome of
19 either analysis.

¹ Hydro uses a cumulative present worth (“CPW”) methodology to confirm the least-cost alternative. The CPW analysis focuses exclusively on costs to identify the option that minimizes the present worth of costs. A CPW analysis does not account for cash inflows related to revenues.

² “2023 Capital Budget Application,” Newfoundland and Labrador Hydro, July 13, 2022.

³ Ibid, vol. II, proj. 12.

⁴ “2023 Capital Budget Application,” Newfoundland and Labrador Hydro, July 13, 2022, vol. II, proj. 18.

⁵ Hopedale Unit 2053 Replacement project only.

⁶ “2023 Capital Budget Application,” Newfoundland and Labrador Hydro, July 13, 2022, vol. II, proj. 5.

⁷ “2023 Capital Budget Application,” Newfoundland and Labrador Hydro, July 13, 2022, vol. II, proj. 5.