

1 Q. **Reference: Technical Conference**

2 Hydro's Capital Risk Rating Matrix does not include economic impacts in the assignment of  
3 impact values of 1 to 5 whereas Newfoundland Power does include economic impact in the  
4 form of NPV of customer benefit (NP CBA 2023 Capital Budget Overview, Appendix C, p.3).

5 a) Why does Hydro not include consideration of NPV of customer benefit in its matrix  
6 determination?

7 b) In its research on this methodology, did Hydro find that the standard practice is to exclude  
8 or include NPV of customer benefit in the matrix?

9 c) More generally, is Hydro's or Newfoundland Power's matrix methodology, in terms of  
10 assigning values to impacts and likelihoods, more consistent with that typically used by  
11 other utilities? Or, is the assignment of the impact and likelihood values at the discretion of  
12 the individual utilities?

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15 A. a) Newfoundland and Labrador Hydro's ("Hydro") Capital Risk Evaluation Matrix was  
16 developed for the "2023 Capital Budget Application"<sup>1</sup> in compliance with the provisional  
17 Capital Budget Application Guidelines ("Guidelines").<sup>2</sup> These provisional Guidelines  
18 prescribe that risk be evaluated on the basis of reliability, safety, and environment. Prior to  
19 the "2023 Capital Budget Application," Hydro utilized its legacy prioritization matrix which  
20 considered additional factors, including net present value.

21 b) In its research, Hydro has found that the factors considered for risk evaluation by other  
22 utilities vary greatly at the discretion of the utility. In all cases observed by Hydro, other  
23 factors were considered in addition to reliability, safety, or environment. Additional factors  
24 include but are not limited to, financial/economic impacts, reputation/relationships,  
25 legal/regulatory, productivity, corporate citizenship, and stakeholder satisfaction.

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<sup>1</sup> "2023 Capital Budget Application," Newfoundland and Labrador Hydro, July 13, 2022.

<sup>2</sup> "Capital Budget Application Guidelines (Provisional)," Board of Commissioners of Public Utilities, January 2022.

1           c) Hydro has observed that the assignment of risk impacts and likelihoods is largely at the  
2           discretion of the utility and the impact and likelihood factors utilized vary significantly by  
3           utility and jurisdiction. Newfoundland Power Inc.'s ("Newfoundland Power") consideration  
4           of economics in its risk assessment is generally aligned with what Hydro has observed from  
5           other utilities; however, there really is no consistency across utilities that would enable  
6           Hydro to comment on whether Hydro or Newfoundland Power is more aligned with best  
7           practices. Hydro believes that its capital risk evaluation framework, developed in compliance  
8           with the provisional Guidelines, is robust.