

1 Q. **Reference: Application, 2024 Capital Budget Overview, page 6**

2 It is stated

3 Hydro believes that prioritization by risk mitigated per dollar spent may not be
4 an effective comprehensive risk indicator for prioritization of projects.

5 a) Why does Hydro believe this?

6 b) Does Hydro believe that prioritization of projects and programs by reliability
7 improvement is an effective comprehensive risk indicator for prioritization of projects?

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10 A. a) As previously stated,¹ the primary challenge encountered by Hydro in the prioritization of
11 projects by risk mitigated per \$1 million is the tendency for this method to favour projects
12 with low materiality. Hydro owns and operates assets with highly divergent asset values.
13 Project cost is the denominator of the equation to determine risk mitigated per \$1 million,
14 resulting in lower risk mitigated per \$1 million for projects with higher materiality,
15 regardless of the risk mitigated. As a result, prioritization in this manner favors projects or
16 programs with low materiality, while assigning relatively low priority to projects with very
17 high materiality, regardless of the risk mitigated.

18 It is Hydro's opinion that risk mitigated per \$1 million provides more value when comparing
19 mutually exclusive projects which address a common risk. Assessing alternatives in this
20 manner would allow for comparison of alternatives with different risk mitigation values and
21 different project costs, as an input to cost-benefit analysis.

22 The concept of evaluating risk mitigated per unit cost is known as Risk Spend Efficiency
23 ("RSE"). Hydro has observed that other utilities have noted similar limitations with the use
24 of RSE for work planning. Hydro remains open to exploring the role of RSE in investment

¹ Please refer to Newfoundland and Labrador Hydro's ("Hydro") response to PUB-NLH-004 of the 2023 Capital Budget Application proceeding. <<http://www.pub.nl.ca/applications/NLH2023Capital/responses/PUB-NLH-004.PDF>>.

1 prioritization; however, it is Hydro's opinion that prioritization by risk mitigated remains a
2 more accurate way of determining investment priority in the current regulatory context.

3 **b)** As stated in the Capital Budget Overview,² and in Hydro's response to PUB-NLH-005 of this
4 proceeding, Hydro is currently unable to provide a prioritization of projects and programs by
5 reliability improvement per dollar spent. As Hydro continues to develop its asset
6 management systems, it will assess opportunities to collect and analyze data to facilitate
7 prioritization of projects by reliability improvement as per the Board of Commissioners of
8 Public Utilities' request,³ after which Hydro will be better able to determine the
9 effectiveness of project prioritization by reliability improvement.

10 Reliability improvement and the associated risk is one component considered when
11 determining and prioritizing a project or program. Please refer to Hydro's Capital Risk
12 Evaluation Matrix⁴ for additional detail.

² "2024 Capital Budget Application," Newfoundland and Labrador Hydro, rev. August 18, 2023 (originally filed July 12, 2023), sch. 1.

³ Capital Budget Application Guidelines (Provisional)," Board of Commissioners of Public Utilities, January 2022.

⁴ "2024 Capital Budget Application," Newfoundland and Labrador Hydro, rev. August 18, 2023 (originally filed July 12, 2023), sch. 1, app. G, p. G-1.