

1 Q. **Reference: CA-NLH-027**

2 It is stated

3 Newfoundland and Labrador Hydro's ("Hydro") capital risk evaluation within its  
4 asset management program provides the baseline risk (i.e., pre-  
5 implementation), residual risk (i.e., post-implementation), and the mitigation  
6 value, in the 2024 Capital Budget Application ("CBA") for projects and programs  
7 in the Renewal, Service Enhancement and General Plant investment  
8 classifications, as required by the provisional CBA Guidelines

9 Please explain how Hydro's risk evaluation quantifies the risk of proceeding with a capital  
10 project now versus 3 years from now.

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13 A. Risk evaluation remains one of a number of considerations used by Newfoundland and Labrador  
14 Hydro ("Hydro") for decision-making, including decisions on deferral or timing of capital  
15 projects. Generally, when proposing an investment for inclusion in a Capital Budget Application,  
16 Hydro's long-term asset management teams perform a risk-based assessment to determine the  
17 criticality of the investment. Hydro's Long-Term Asset Planners ("LTAPs") apply Hydro's Capital  
18 Risk Rating Matrix<sup>1</sup> to determine a pre- and post-implementation impact and likelihood score.<sup>2</sup>  
19 Next steps may range from immediate action through Hydro's in-service failure programs, to  
20 inclusion in a future year of Hydro's capital plan depending on the risk scoring, the nature of the  
21 deficiency, and the analysis required prior to proposing a capital project. Should it be  
22 determined that the risk of investment deferral is low, that option is selected in an effort to  
23 balance cost to customers with an appropriate level of reliability. Hydro considers the likelihood  
24 of a risk occurring in a given year when determining the timing of capital work.

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<sup>1</sup> "2024 Capital Budget Application," Newfoundland and Labrador Hydro, rev. September 21, 2023 (originally filed July 12, 2023), sch.1, app. G.

<sup>2</sup> Hydro's likelihood index values, shown in CA-NLH-128, Attachment 1, provide guidance to LTAPs in estimating the likelihood of failure of its assets. For further detail on Hydro's capital risk assessment processes and how it assigns likelihood scores, please refer to PUB-NLH-020 of this proceeding.

# NLH Capital Risk Rating Matrix

	Low	Medium		High	
Impact	Risk Ranking Score = (Impact Score) x (Likelihood Score)				
Very High (5)	5	10	15	20	25
High (4)	4	8	12	16	20
Moderate (3)	3	6	9	12	15
Low (2)	2	4	6	8	10
Very Low (1)	1	2	3	4	5

Likelihood				
Rare (1)	Low (2)	Possible (3)	Likely (4)	Almost Certain (5)
<1%	1-10%	10-50%	50-90%	>90%
1 in 200 years	1 in 20 years	1 in 5 years	1 in 2 years	Will happen this year/ is happening now
A freak occurrence of factors would be required for the impacts to result	A rare combination of factors would be required in order for the impacts to materialize	Could happen when additional factors are present, otherwise, unlikely to occur	Not certain, but an additional factor could result in the impacts detailed	Almost inevitable that risk will cause the impacts detailed