newfoundland labrador hydro
a nalcor energy company

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June 30, 2020

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Ms. Cheryl Blundon
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Efficiency and Effectiveness Plan Update

In September 2019, through the Rate Mitigation Options and Impacts Review proceeding, Newfoundland and Labrador Hydro ("Hydro") submitted, as part of its joint evidence with Nalcor Energy, a framework for its Efficiency and Effectiveness Plan ("EEP").[1] The EEP is Hydro's commitment to achieve at least $4.5 million dollars of sustainable cost savings through six key areas of focus: work management and execution; operational technology advances; efficiency of Exploits operations; capital planning; contracting and procurement; and human resource management. An overview of the EEP areas of focus is included as Attachment 1.

On February 7, 2020, the Board of Commissioners of Public Utilities of Newfoundland and Labrador ("Board") released its final report in relation to the Rate Mitigation Options and Impacts Reference in which the Board referenced Hydro's commitment to cost savings, indicating that Hydro's plan for cost reductions was not sufficiently ambitious. The Board's feedback is acknowledged; Hydro reiterates its commitment to long-term, sustainable cost savings with an aim to exceed its prior commitment.

Hydro continues to further foster a culture of sustainable cost management. The EEP is a means through which Hydro will realize cost savings and productivity gains in specific, targeted areas. It is important to note that the culture of sustainable cost management will also provide other areas where savings beyond those identified in the EEP will be realized. It is Hydro's intent to set multi-year, overall O&M[2] savings targets associated with the implementation of the EEP initiatives, as well as other organization-wide cost savings measures.

Impact of COVID-19 Pandemic

While progress was made until mid-March, Hydro's ability to finalize its planning work and advance many of its EEP initiatives in 2020 has been, and will likely continue to be, impacted by the COVID-19 pandemic. Since March 2020, Hydro's priorities have temporarily shifted from the implementation and execution of EEP initiatives to the oversight, safe execution and continuity of critical work necessary to support Hydro's operations during the pandemic.

[1] "Reference to the Board on Rate Mitigation Options and Impacts," Nalcor Energy and Newfoundland and Labrador Hydro, September 20, 2019, Appendix 3.
[2] Operations and maintenance ("O&M")

As a result of the pandemic response and transition to a business continuity mode of operation, the anticipated EEP work to be completed in 2020 has slowed. The team supporting the EEP work is considering and developing an assessment of the impact on Hydro's implementation plans. The EEP initiatives are multi-year in execution and Hydro remains committed to advancing this work.

Progress to Date

Information on the activities undertaken to date is outlined in Attachment 2. Hydro's initial EEP work has been focused on establishing a solid foundation from which to effect organizational change. Hydro has implemented a coordinating structure for the EEP work, comprised of employees who continue to work within their existing departmental areas. This approach was purposefully chosen to understand where costs can be removed from Hydro's operations and facilitate the changes resulting from the EEP as a normal progression of business.

Hydro remains committed to advancing the work of the EEP to deliver on the cost commitments made. Hydro's ability to materially adjust its operations in response to the COVID-19 pandemic demonstrates that the fundamental work of the EEP and change management processes have contributed to Hydro becoming a more efficient and effective organization. While a change in focus has been required since March of this year, the initial disruption caused by the pandemic has settled and a more steady state of operations has been achieved. As such, Hydro believes it prudent to increase its focus on the EEP over the next few months.

Fall Update

Hydro will provide the Board with a further update on the status of the EEP in the fall of this year including commitments on cost savings projected for 2021 and with a view to cost savings for subsequent years.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

Michael S. Ladha
Legal Counsel & Assistant Corporate Secretary
MSL/kd

Encl.

ecc: **Board of Commissioners of Public Utilities**
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Kim Simms
Rate Mitigation Review

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Overview of Efficiency and Effectiveness Plan Focus Areas

The objective of the Efficiency and Effectiveness Plan ("EEP") is to achieve at least $4.5 million in cost savings and productivity gains over six areas, as follows.

1.0 Work Management & Execution

Presently, planning and scheduling activities across Hydro's organization are decentralized and each region typically plans and schedules its work activities independently from other regions. Therefore, existing planning and scheduling practices are not always fully oriented towards optimization of shutdown and major equipment outages, particularly those that require cross-departmental collaboration. Productivity gains through this area will primarily be achieved through (i) integration of planning and scheduling activities, including outage management; (ii) improved coordination of work; and (iii) review, modification, and implementation (as required) of planning and scheduling departmental structure, processes, policies, and software.

2.0 Technology

Currently, technologies to support operational advancements have various levels of uptake across the organization and some areas have implemented local solutions for their needs. This priority area is focused on reviewing operational technologies specific to business applications, communication equipment, and infrastructure that are currently used at Hydro, as well as those used by other utilities. Opportunities to enhance technological solutions already in service at Hydro and implement new solutions that lead to reduced costs for customers (e.g., mobility solutions, asset condition reporting, etc.) will be identified.

3.0 Exploits Assets

The Exploits Assets[1] are currently owned by the Provincial Government. While Hydro operates the Exploits Assets, the current ownership arrangement is such that these assets are not fully integrated into the operational management of Hydro's owned fleet of generating assets. A review of the Exploits operations has identified opportunities for integration which can deliver both cost savings and efficiencies; this would be further bolstered by the transfer of the assets to Hydro.[2] The modification and integration of the Exploits operations into Hydro's regulated operations will enable cross utilization of resources, the implementation of technologies to achieve efficiencies, and optimal coordination of capital planning, support services and procurement activities.

4.0 Capital Planning

Hydro is focused on investing a level of capital expenditure that appropriately balances reliability with cost management, considers the rate pressures facing customers, and is founded in evidence-based decision-making informed by external stakeholder input. Through the EEP, Hydro is further focusing its capital portfolio planning process to ensure capital investment reflects condition-based assessments, where possible. Changes are ongoing to improve processes around Hydro's five-year capital spending

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[1] "Exploits Assets" refers to three hydraulic generation powerhouse facilities (Star Lake, Grand Falls, and Bishop's Falls), the direct infrastructure associated with them (penstocks, power canals, etc.), the controlled and uncontrolled water sheds providing generation water, transmission lines, roads, and other associated infrastructure.

[2] Hydro continues to explore the transfer of the Exploits Assets from Government.

plan such that cost savings are identified, where appropriate, as well as efficiency in the planning and execution of capital.

5.0 Contracting & Procurement

Opportunities are being explored through the Contracting & Procurement initiative to achieve cost savings and productivity gains through the pursuit of joint procurement both internally (e.g., Nalcor and affiliates) and externally (e.g., Newfoundland Power and Provincial and Federal Government bodies). Consideration is being given to the use of the combined commodity and service needs of two or more organizations to leverage purchasing power and reduce administrative overhead costs. Technology options which have the capability to perform improved reporting in spending, contract and supplier management and forecasting will also be explored as a means of better informing future decision-making and supporting Hydro's least-cost mandate.

6.0 Human Resource Management

Approximately 60% of Hydro's operating costs are related to labour. The purpose of the Human Resource Management initiative is to use human resources data and, in conjunction with other EEP initiatives, optimize opportunities for labour cost reductions. These reductions may be achieved through reducing full time equivalent positions, primarily through attrition, over the next several years, and potential modification of existing organizational structures and service delivery models.

EEP Update – Progress to Date

1.0 Efficiency and Effectiveness Support Structure

The EEP is a corporate priority; therefore, the initiatives and changes proposed through the EEP are reviewed and endorsed by Hydro's leadership and executive team. The EEP is sponsored by Hydro's President and accountability for each of the six areas rests with a member of the senior management team. Additionally, each of the six areas is supported by employees with relevant expertise in the area who will facilitate the execution of the specific EEP initiatives.

The work being undertaken in each of the priority areas is supported corporately as follows:

- Utility Performance – to ensure the initiatives support improved productivity and work execution and align with good utility practice;
- Strategy – to ensure the initiatives align with corporate goals and objectives and are sustainable;
- Change Management and Communications – to ensure the impacts of the changes are sustainable long term, as well as appropriately contemplated and communicated to minimize disruption and facilitate engagement with the appropriate stakeholder groups;
- Regulatory – to ensure regulatory considerations are contemplated and initiatives are aligned with Hydro's mandate to provide least-cost, reliable service; and
- Finance – to ensure the initiative is supported based on sound cost management and analysis oversight.

2.0 Cross-Organizational Engagement Sessions

Cross-organizational engagement sessions have been held to assess the needs of the business relative to the priority areas and identify opportunities for sustainable cost savings and productivity gains. These sessions were used to support development of key deliverables from the EEP, inform risk assessments, change management plans and identification of implications of the EEP on human resources and other stakeholders. Additional sessions will likely occur to address Hydro's experience and lessons learned as a result of the COVID-19 pandemic and determine whether there are implications for components of the EEP going forward.

Status: Initial engagement sessions complete.

3.0 Project Charters

After the scope of each of the six areas of focus was identified, project charters outlining business objectives and key initiatives were drafted. The charters identify the purpose, scope, key deliverables, relevant considerations/contingencies and assumptions, change management overview, and dependencies on other areas of the organization. The purpose of the project charters is to provide a shared understanding of the work to be undertaken through each initiative and a reference to measure the success of implementation of each initiative.

Status: Near completion.

4.0 Multi-Year Work Plans

The project leads are working within their departments to develop multi-year work plans to support each deliverable. Multi-year work plans are required as the initiatives may require longer term realization periods. The work plans will be used to inform departmental and corporate work plans and priorities as the EEP progresses; however, will remain subject to modification as additional opportunities for cost savings and productivity gains present.

Status: In progress.

5.0 Risk Assessment

An analysis of potential risks associated with each area was undertaken to identify potential risks or constraints and take into consideration the mitigation opportunities which can be used to alleviate or reduce the identified risks. This assessment is required for ongoing management of risk and will continue to evolve through the execution of EEP deliverables. As a result of the COVID-19 pandemic, this analysis will be revisited.

Status: In progress.

6.0 Change Management Plans

Research shows that organizations which invest in proper change management strategies are up to six times more likely to achieve the desired objective.[1] Prior to the EEP initiative, Hydro had not focussed on change management as a discipline that returns improved business outcomes, but has since prioritized implementation of such protocols. The EEP desired objectives may require considerable change within the organization. To ensure change is prudently managed and to minimize disruption to the business, key team members involved in the execution of work related to the EEP participated in change management training at the beginning of 2020. This training supports the development and execution of change management plans and will aid in the facilitation of change throughout the organization.

Status: Training is complete. Change management plans are in progress.

7.0 Execution of Deliverables

Execution work had commenced on select deliverables prior to the arrival of the COVID-19 pandemic. For example, in the first quarter of 2020, Hydro awarded the contract for an operational technology assessment and the consultant conducted a portion of its planned meetings with departmental representatives to assess opportunities for technological advancements. Additionally, in the first half of 2020, analytical work progressed on data related to the human resources management initiative of the EEP. The majority of work related to the execution of deliverables is dependent on the finalization of the multi-year plans and resumption of a more steady state of operations.

Status: Due to the COVID-19 pandemic, planned work for 2020 has slowed.

[1] Prosci 2018 benchmarking data.