

Q. (Reference Application) The response to CA-NP-005 relating to Newfoundland Power’s 2021 Capital Budget Application states “*Newfoundland Power does not currently employ a methodology for prioritizing capital expenditures. As a result, there is no documentation to provide between senior management and line managers relating to prioritization and cost cutting, nor is there any documentation to provide from senior management relating to rate pressures brought on by the Muskrat Falls project.*”

- a) Did Newfoundland Power employ a prioritization process for its 2022 Capital Budget Application? If so, please explain the prioritization process employed by Newfoundland Power.
 - b) Please provide all documentation between Newfoundland Power senior management and line managers with respect to the 2022 CBA relating to prioritization and cost efficiencies by Newfoundland Power.
 - c) Please provide any documentation from Newfoundland Power senior management to line managers with respect to the 2022 CBA relating to budget control in light of rate pressures brought on by the Muskrat Falls Project and the economic downturn.
 - d) If there is no such documentation, please explain how Newfoundland Power senior management communicated to line managers which capital projects were to be included in the 2022 CBA, and which capital projects were to be included in Newfoundland Power's planned 2023 to 2026 capital expenditures.
 - e) Does Newfoundland Power agree that a decision to defer, but not cancel, a capital expenditure means that it does prioritize capital budget expenditures?

A. A. General

Newfoundland Power's annual capital expenditures are driven by its statutory obligations. The Company has a legal obligation to ensure its service and facilities are reasonably safe and adequate and just and reasonable.¹ The Company is also subject to the requirements of the provincial power policy, including requirements to:

- (i) Manage facilities in a manner that results in the most efficient production, transmission and distribution of power to customers;
 - (ii) Provide customers with equitable access to an adequate supply of power; and
 - (iii) Deliver power to customers at the lowest possible cost consistent with reliable service.²

The provincial power policy does not create a hierarchy among these provisions. Rather, each provision is equally important in providing service to customers. Newfoundland Power's capital planning process, including its prioritization of capital expenditures, is reflective of these considerations.

¹ See Section 37(1) of the *Public Utilities Act*.

² See Section 3(b) of the *Electrical Power Control Act, 1994*.

1 The Requests for Information posed by the Consumer Advocate as part of the Company's
2 2021 *Capital Budget Application* related to a "prioritized list of projects" based on
3 matters being discussed as part of the ongoing *Capital Budget Application Guidelines*
4 review.³

5
6 Newfoundland Power does not employ a methodology to rank the relative priority of
7 capital projects in a list format. The Company does, however, employ a comprehensive
8 planning process to ensure all capital projects necessary to meet its statutory obligations
9 are appropriately prioritized and all other projects are deferred.⁴

10 **B. Response**

- 11 a) Yes, Newfoundland Power employed a prioritization process for its 2022 *Capital*
12 *Budget Application*.

13
14 Prioritization within Newfoundland Power's annual capital budget applications is
15 essentially a matter of determining which capital expenditures are required to meet its
16 statutory obligations in a given year. The overall level of capital expenditures
17 required in a given year is principally driven by: (i) system growth, including new
18 customer connections and localized areas of load growth; and (ii) the condition of
19 electrical system assets and requirements for replacement or refurbishment.

20
21 Approximately ¼ of the capital expenditures proposed for 2022 are driven by system
22 growth. This includes connecting new customers to the electrical system, addressing
23 customers' increased electrical system loads, and responding to third party requests.
24 These expenditures are required annually to meet Newfoundland Power's obligation
25 to serve and are prioritized on that basis. Options to defer these capital expenditures
26 are limited and generally relate to assessments of alternatives, such as whether
27 overload conditions can be addressed by transferring load from one feeder to
28 another.⁵

29
30 Approximately ½ of the capital expenditures proposed for 2022 are driven by the
31 requirement to replace deteriorated, deficient and failed plant. Capital expenditures
32 for plant replacement are generally prioritized based on plant condition.

33
34 Transmission and distribution capital expenditures are prioritized based on the
35 Company's inspection and maintenance practices.⁶ These practices establish
36 classification priorities for transmission and distribution infrastructure based on the
37 condition observed in the field. For both transmission and distribution, high-priority

³ See Request for Information CA-NP-003 as part of Newfoundland Power's 2021 *Capital Budget Application*.

⁴ See the 2022 *Capital Budget Application*, 2022 *Capital Plan*, Section 2.0 *Capital Planning at Newfoundland Power*.

⁵ See, for example, Newfoundland Power's 2022 *Capital Budget Application*, Report 4.2 *Feeder Additions for Load Growth*.

⁶ See, for example, response to Request for Information NLH-NP-009 for information on the classification priorities assigned to wood poles on transmission lines.

1 deficiencies and in-service failures are prioritized for the year in which they are
2 identified. Other deficiencies are tracked and planned for execution during the
3 following year.⁷ This permits a structured, condition-based approach to maintaining
4 over 12,000 kilometres of distribution and transmission line.

5
6 Substation and generation capital expenditures are also condition-based. Capital
7 expenditures for these asset classes are prioritized to respond to in-service failures
8 and equipment at imminent risk of failure. This includes, for example, the
9 replacement of equipment at the Petty Harbour Plant in 2022 that has failed and is
10 being held in place with nylon strapping.⁸ Major refurbishment projects at
11 substations and generating plants are often prioritized based on the condition of major
12 plant components, such as the condition of transformers⁹ or penstocks.¹⁰ This reflects
13 the criticality of these components to the safe and reliable operation of substations
14 and generating plants.

15
16 Information technology capital expenditures are prioritized based on a number of
17 factors, including: (i) the criticality of a software application in providing service to
18 customers; (ii) vendor requirements, including the expiration of vendor support and
19 necessary cybersecurity patches; and (iii) equipment failures or observed performance
20 issues.¹¹ For example, the replacement of Newfoundland Power's workforce
21 management system was prioritized for 2022 as the existing system has been
22 discontinued and will no longer be supported by its vendor.¹²

23
24 Certain other capital expenditures are prioritized based on mandatory requirements or
25 cost reductions that would be provided to customers.¹³ As examples, the 2022 *PCB*
26 *Bushing Phase-out* is a mandatory project that is prioritized in order to meet
27 Government of Canada regulations.¹⁴ The *LED Street Lighting Replacement* project
28 is prioritized in order to provide customers with lower rates for a more reliable
29 service.¹⁵

⁷ As examples, the Company's *Reconstruction* project addresses in-service failures and high-priority deficiencies on the distribution system during the year in which they are identified. Other deficiencies are addressed the following year under the *Rebuild Distribution Lines* project. See response to Request for Information CA-NP-033.

⁸ See response to Request for Information CA-NP-022 for information on the criteria used to prioritize the *Hydro Facility Rehabilitation* project.

⁹ See response to Request for Information CA-NP-026 for information on the criteria used to prioritize the *Substation Refurbishment and Modernization* project.

¹⁰ See response to Request for Information CA-NP-024 for information on the criteria used to prioritize the *Sandy Brook Plant Penstock Replacement* project.

¹¹ See, for example, response to Request for Information CA-NP-049 for information on the criteria used to prioritize 2022 projects related to information technology infrastructure.

¹² See response to Request for Information CA-NP-054 for information on the criteria used to prioritize the *Workforce Management System Replacement* project.

¹³ Newfoundland Power's capital expenditures are informed by a variety of regulations, including regulations under the *Occupational Health and Safety Act* and *Electricity and Gas Inspection Act*.

¹⁴ See response to Request for Information CA-NP-028 for information on the *PCB Bushing Phase-out* project.

¹⁵ See response to Request for Information CA-NP-032 for information on the *LED Street Lighting Replacement* project.

1 When capital projects must be prioritized, Newfoundland Power assesses all viable
2 alternatives to ensure the least cost alternative is proposed.¹⁶

3
4 Overall, this approach to prioritizing capital expenditures is consistent with meeting
5 the Company's obligation to provide customers with safe and reliable service at the
6 lowest possible cost.

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8 b) The documentation relied upon by Newfoundland Power to prioritize the capital
9 projects for 2022, including those based on cost efficiencies, is contained within the
10 Company's *2022 Capital Budget Application*.¹⁷

11
12 c) There is no documentation to provide from senior management relating to budget
13 control in light of rate pressures brought on by the Muskrat Falls Project and the
14 economic downturn.

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16 Newfoundland Power is required to provide reliable, least cost service to its
17 customers under all economic conditions. For more information, see response to
18 Request for Information NLH-NP-042.

19
20 d) The preparation of Newfoundland Power's annual capital budget and its 5-year
21 capital plan is a collaborative process between managers, as well as senior
22 management, to determine the nature, scope and timing of capital projects. Through
23 this process, managers and senior management determine which projects are included
24 in the capital budget or capital plan, and which have been deferred.

25
26 e) Newfoundland Power agrees that decisions to prioritize or defer capital projects are
27 both part of its capital planning process. See part a).

¹⁶ See response to Request for Information NLH-NP-042.

¹⁷ For information on capital projects aimed at achieving cost efficiencies, see response to Request for Information CA-NP-031.