Q. (Reference Application Schedule B, page iii) It is stated "*Newfoundland Power does not currently have the data or software necessary to provide calculations of risk mitigation or reliability improvement. To comply with the spirit and intent of the Provisional Guidelines, the Company developed a methodology to provide consistency in its assessment of risks across projects and programs. The methodology uses a risk matrix where priority is determined based on assessments of probability and consequence. The Company expects that the methodology may evolve as it completes its asset management review.*"

a) Please explain the pros and cons of using Newfoundland Power's proposed method of risk assessment versus the method included in the Provisional Guidelines.

b) Do the Provisional Guidelines propose risk assessment of a particular project or program relative to deferring or not proceeding with the project?

c) Does Newfoundland Power's proposed method of risk assessment simply gauge risk of one project versus another project? In other words, is Newfoundland Power's proposed risk assessment method appropriate for prioritizing projects, but not for gauging the risk of project deferral?

d) Can the Board approve a project that does not meet requirements relating to the quantification of risk of project deferral as required in its Provisional Guidelines?

A. a) Newfoundland Power's risk assessment methodology is consistent with the Company's long-term approach to assessing risks. The Company's risk matrix methodology applies scoring guidelines that use quantifiable factors in determining priority scores.[1] This approach provides reasonable consistency across asset classes and transparency in how the results are determined. This, in turn, allows proposed capital expenditures to be presented in the form of a prioritized list as required by the Provisional Guidelines.

Newfoundland Power's risk matrix methodology evaluates both the probability and consequences of not proceeding with a capital expenditure. These business objectives are consistent with the Company's statutory obligations in serving customers.[2] Aligning the evaluation of risk and the prioritization of capital expenditures with a utility's business objectives is consistent with sound public utility practice.

The Provisional Guidelines require calculations of risk and the prioritization of capital expenditures on the basis of quantifiable values for risk mitigation or reliability improvement. The derivation of such quantifiable values may provide greater precision in evaluating risk and prioritizing capital expenditures.

[1] See the *2023 Capital Budget Application, 2023 Capital Budget Overview,* Appendix C.
[2] See the *2023 Capital Budget Application, 2023 Capital Budget Overview,* Appendix C.

Newfoundland Power does not currently have the advanced software or data analytics required to achieve strict adherence to these requirements. In the Company's view, its risk matrix methodology meets the spirit and intent of the requirements in the Provisional Guidelines. Options to provide the quantifiable values outlined in the Provisional Guidelines are among the matters being assessed as part of Newfoundland Power's ongoing review of its asset management practices.

b) The Provisional Guidelines require that projects and programs classified as Renewal, Service Enhancement or General Plant be evaluated for risk mitigation, and that risk mitigation be calculated as the difference in risk before and after the proposed alternatives were implemented. The calculation of risk before a proposed alternative is implemented is substantially the same as the risk that exists by not proceeding with a proposed project or program.

c) Newfoundland Power's risk matrix methodology provides a tool through which to assess the risk of not proceeding with individual capital expenditures. By applying a consistent set of scoring guidelines, the methodology provides consistency in the results across asset classes that also allows capital expenditures to be presented in the form of a prioritized list.

d) Yes. See part d) to the response to Request for Information CA-NP-032.