

1 **Q. (Reference Application) Please provide all documented communication**
 2 **between NP's senior management and line managers with respect to the 2024**
 3 **CBA relating to prioritization and cost efficiencies.**
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5 A. The documentation relied upon by Newfoundland Power to prioritize the capital projects
 6 for 2024, including those based primarily on cost efficiencies, is contained within the
 7 Company's *2024 Capital Budget Application*.¹
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9 Newfoundland Power balances the cost and reliability of its service delivery through a
 10 comprehensive capital planning process and a focus on the overall costs borne by
 11 customers through customer rates.² It is a collaboration between managers, as well as
 12 senior management, to determine the nature, scope and timing of capital projects
 13 included in its annual capital budget and which projects can be deferred. This process
 14 employs practices to ensure capital projects are consistent with the delivery of reliable
 15 service to customers at the lowest possible cost.³
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17 Certain capital projects are prioritized through the Company's capital planning process to
 18 reduce overall costs to customers, such as:
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20 (i) *LED Street Lighting Replacement* project. This project involves the replacement
 21 of existing High Pressure Sodium ("HPS") street light fixtures with Light Emitting
 22 Diode ("LED") fixtures. LED fixtures require 60% less energy to provide
 23 equivalent lighting output and require less maintenance. Current customer rates
 24 for LED street lights are between 12% and 44% lower than rates for HPS street
 25 lights.⁴
 26

27 (ii) *Mobile Hydro Plant Surge Tank Refurbishment* project. This project involves the
 28 refurbishment of the surge tank at the Mobile hydroelectric generating plant (the
 29 "Mobile Plant" or the "Plant"). An updated lifecycle cost analysis of the Mobile
 30 Plant was completed and confirmed that continued operation of the Plant will
 31 provide an economic benefit to customers over the long term. The updated
 32 analysis showed the Plant's production provides a net benefit for customers
 33 between 4.52 ¢/kWh and 6.05 ¢/kWh. The cost of replacement production
 34 would need to be reduced by between 62% and 69% to be less than the cost of
 35 operating the Plant.⁵

¹ For a discussion of Newfoundland Power's prioritization methodology, see Newfoundland Power's *2024 Capital Budget Application, 2024 Capital Budget Overview, Appendix C*.

² For a fulsome discussion on how Newfoundland Power balances cost and service reliability, see Newfoundland Power's *2024 Capital Budget Application, 2024 Capital Budget Overview, Section 2.3 Balancing Cost and Service*.

³ In some instances, the Company's ability to reduce its capital costs is practically limited. For example, approximately one quarter of capital expenditures included in the Company's *2024 Capital Budget Application* are associated with requirements to connect new customers and respond to system load growth. These expenditures are required as part of Newfoundland Power's obligation to serve.

⁴ See Newfoundland Power's *2024 Capital Budget Application, Schedule B*, page 3.

⁵ See Newfoundland Power's *2024 Capital Budget Application, Schedule B*, page 96. See also, Newfoundland Power's *2024 Capital Budget Application*, report *4.2 Mobile Hydro Plant Surge Tank Refurbishment*, page 12 and, *Appendix A: Updated Lifecycle Cost Analysis of the Mobile Plant*, page 3.

1 (iii) *Lookout Brook Hydro Plant Refurbishment* project. This project involves
 2 refurbishment of the Lookout Brook hydroelectric generating plant (the “Lookout
 3 Brook Plant” or the “Plant”), located in western Newfoundland near the
 4 community of St. George’s. A lifecycle cost analysis determined that continued
 5 operation of the Lookout Brook Plant will provide an economic benefit to
 6 customers over the long term. The analysis shows the Plant’s production
 7 provides a net benefit for customers of between 2.11 ¢/kWh and 2.97 ¢/kWh.
 8 The cost of replacement production would need to be reduced by between 37%
 9 and 46% to be less than the cost of operating the Plant.⁶

10
 11 (iv) *Application Enhancements* project. This project includes the enhancement or
 12 replacement of six software applications in 2024 to reduce costs to customers or
 13 improve customer service delivery. Combined, the Digital Forms Portfolio
 14 Enhancement, Workforce Management System Enhancement, Daily Time Entry
 15 Application Enhancement, and IT Service Management System Enhancement will
 16 provide a positive net present value for customers of approximately \$236,000.⁷

17
 18 Newfoundland Power also uses a variety of measures through its capital planning
 19 process to ensure proposed capital expenditures are consistent with the least-cost
 20 delivery of reliable service to customers. These include:

21
 22 (i) An assessment of alternatives is completed for capital projects. The *2024 Capital*
 23 *Budget Application* includes assessments of alternatives for 18 projects and
 24 programs.⁸ As an example, two alternatives were explored for the *Transmission*
 25 *Line 146L Rebuild* project. A net present value analysis determined that
 26 rebuilding Transmission Line 146L in a parallel right of way is the lowest cost of
 27 the viable alternatives.⁹

28
 29 (ii) Capital projects are deferred when possible. Seven projects that were planned
 30 for 2024 have been deferred to subsequent years.¹⁰ For example, the *Kenmount*
 31 *Road Building Emergency Diesel and Main Electrical Upgrade* project was
 32 deferred to allow further analysis to confirm the least-cost approach and is now
 33 planned for 2026 and 2027.

34
 35 (iii) Capital expenditures are targeted in the areas that provide the most benefits for
 36 customers. For example, the Company’s *2024 Distribution Reliability Initiative*
 37 includes the relocation of a 4.8 kilometre section of Western Avalon Substation
 38 (“WAV”) distribution feeder where customers experience among the worst
 39 service reliability in Newfoundland Power’s service territory. Relocating this
 40 section of distribution feeder to the roadside of Route 201 will improve access to

⁶ See Newfoundland Power’s *2024 Capital Budget Application, Schedule B*, page 92. See also, Newfoundland Power’s *2024 Capital Budget Application*, report *4.1 Lookout Brook Hydro Plant Refurbishment*, page 14.

⁷ See Newfoundland Power’s *2024 Capital Budget Application*, report *5.1 Application Enhancements*, Appendices.

⁸ See the *Assessment of Alternatives* section for the relevant capital projects and programs in *Schedule B* to Newfoundland Power’s *2024 Capital Budget Application*.

⁹ See Newfoundland Power’s *2024 Capital Budget Application, Schedule B*, page 82. See also, Newfoundland Power’s *2024 Capital Budget Application*, report *3.1 2024 Transmission Line Rebuild*, page 12.

¹⁰ See Newfoundland Power’s *2024 Capital Budget Application, 2024 Capital Budget Overview*, Appendix B.

1 the line during outage response activities and will improve the efficiency of
2 preventative maintenance and inspection activities.¹¹

- 3
4 (iv) Capital projects are coordinated, where possible, to realize productivity gains and
5 other cost benefits. For example, the *Mobile Hydro Plant Surge Tank*
6 *Refurbishment* project is proposed to be coordinated with the previously
7 approved refurbishment work to be completed in 2023 and 2024 as detailed in
8 Newfoundland Power's *2023 Capital Budget Application*, report 4.2 *Mobile Hydro*
9 *Plant Refurbishment*. This reduces requirements for plant downtime and the
10 need to purchase more expensive replacement production from Newfoundland
11 and Labrador Hydro. The present value of the cost of continued operation of the
12 Plant is \$17.8 million.¹² This compares to a cost of replacing the Plant's
13 production of between \$47.3 and \$57.3 million.¹³

14
15 These examples demonstrate how Newfoundland Power's proposed capital projects are
16 reasonable and necessary to provide reliable service to customers at the lowest possible
17 cost. The Company's cost management associated with its capital expenditures has
18 been previously recognized by the Board.¹⁴

¹¹ See Newfoundland Power's *2024 Capital Budget Application*, Schedule B, page 11. See also, Newfoundland Power's *2024 Capital Budget Application*, report 1.1 *Distribution Reliability Initiative*.

¹² See Newfoundland Power's *2024 Capital Budget Application*, report 4.2 *Mobile Hydro Plant Surge Tank Refurbishment*, Section 5.0 *Lifecycle Cost Analysis*.

¹³ Ibid.

¹⁴ For example, in Order No. P.U. 36 (2021), the Board stated, "the record shows that Newfoundland Power's capital planning process is comprehensive and includes reasonable controls on capital spending."