

1 Q. **Reference: Application, 2023 Capital Budget Overview, page 1**

2 It is stated “Hydro is committed to investing in capital in a manner which meets its obligation to  
3 provide reliable service at the lowest possible cost”.

4 a) Using this as a criterion for the provision of electricity service to customers, can most any  
5 project that improves reliability be justified provided it is put out to competitive tender and  
6 the lowest cost bid is selected?

7 b) Would replacing an older feeder with a new feeder provide improved reliability? Under  
8 current legislation, could Hydro justify replacement of this feeder with a new feeder even  
9 though the existing feeder was providing reliability similar to the system average provided  
10 construction was put out to competitive tender and the lowest cost bid was selected?

11 c) Could Hydro improve reliability by building a second feeder to every customer in the  
12 province that would be called upon to operate when the primary feeder failed? Under  
13 current legislation, provided the second feeder were put out to competitive tender and the  
14 lowest cost bid were selected, could Hydro justify this expenditure on the basis that it would  
15 provide reliable service to customers at the lowest possible cost?

16 d) Can Hydro justify adding new generation beyond an accepted generation reliability criteria  
17 such as 1 day in 10 years because it would improve reliability on the system provided the  
18 project were put out to competitive tender and the lowest cost bid were selected?

19 e) Is a change in legislation warranted to take into consideration the value customers place on  
20 service improvements?

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23 A. a) No, Newfoundland and Labrador Hydro (“Hydro”) does not believe that the competitive  
24 tender process necessarily renders an expenditure justifiable in the context of least-cost,  
25 reliable service. Please refer to Hydro’s response to CA-NLH-043 of this proceeding for  
26 Hydro’s interpretation of its legislative obligation to provide customers with service at the  
27 lowest possible cost consistent with reliable service.

- 1           **b)** Replacement of an older feeder with a new feeder would generally provide improved  
2           reliability, provided that the older feeder was deteriorated to the point that reliability is  
3           impacted, and that the new feeder is constructed in accordance with modern distribution  
4           design line standards. Whether or not such an expenditure is justifiable is dependent on a  
5           multitude of factors, including but not limited to compliance with legislation, the reliability  
6           of the existing infrastructure, the level of reliability expected by customers and external  
7           stakeholders, and the project cost in consideration of the value the investment provides to  
8           stakeholders. Ultimately, an expenditure may be deemed justifiable only if approved  
9           through regulatory process. As noted in the response to part a), Hydro does not believe that  
10          the competitive tender process necessarily renders an expenditure justifiable in the context  
11          of least-cost, reliable service.
- 12          **c)** Theoretically, construction of a second, redundant feeder would improve reliability for  
13          customers. Whether or not such an expenditure is justifiable is dependent on a multitude of  
14          factors, including but not limited to the reliability of the existing infrastructure, the level of  
15          reliability expected by customers and external stakeholders, and the project cost in  
16          consideration of current economic factors. The cost associated with construction of a  
17          second, redundant feeder serving each customer would unlikely be acceptable to the  
18          customer for the associated improvement in reliability. Ultimately, an expenditure may be  
19          deemed justifiable only if approved through regulatory process.
- 20          **d)** The determination of whether the addition of new generation is justifiable is dependent on  
21          a multitude of factors, including but not limited to the reliability of existing infrastructure,  
22          the marginal and levelized cost of energy, the availability of alternative supply (e.g. energy  
23          imports), customer expectations, and the load demand of the system. In considering  
24          investment in new generation, Hydro carries out robust analysis, such as that currently  
25          underway in support of Hydro's Reliability and Resource Adequacy Study.
- 26          **e)** As previously noted, Hydro can and does take into account the level of reliability expected  
27          by customers and external stakeholders.