

1 **Q. (Reference Application Schedule B, page ii) With respect to risk assessment, it**
 2 **is stated “Where quantitative information is not available, qualitative**
 3 **assessments based on engineering judgment have been provided. For projects**
 4 **over \$5 million, more detailed information is provided in reports prepared by**
 5 **Professional Engineers or other qualified experts.”**

6
 7 **a) Excluding Newfoundland Power staff, what other qualified experts have**
 8 **prepared reports associated with the 2023 Capital Budget Application?**

9 **b) Please confirm that this approach is essentially unchanged from that**
 10 **used by Newfoundland Power in its recent capital budget applications.**

11 **c) Are the “professional engineers or other qualified experts” referenced**
 12 **by Newfoundland Power able to quantify risk? If not, why has**
 13 **Newfoundland Power hired “professional engineers and other qualified**
 14 **experts” who do not have the expertise to quantify risk when it is a**
 15 **requirement under the Provisional Guidelines?**

16
 17 **A. a)** No other qualified experts prepared reports associated with the *2023 Capital*
 18 *Budget Application*. The *2023 Capital Budget Application* includes nine reports.
 19 Professional Engineers prepared seven of these reports. The remaining two
 20 reports were prepared by Information Technology and Accounting professionals.

21
 22 **b)** Newfoundland Power confirms that its approach to preparing reports for its *2023*
 23 *Capital Budget Application* has not changed materially from the approach used in
 24 recent capital budget applications.

25
 26 The previous *Capital Budget Application Guidelines*, effective from 2007 to 2021,
 27 required that, “Where appropriate, a utility is expected to provide a
 28 *report/analysis by a qualified engineer or other appropriate expert in support of*
 29 *the expenditure*” when the expenditure is greater than \$500,000.¹ The new
 30 Provisional Guidelines require that, “Where appropriate, the utility is expected to
 31 *provide additional information such as a report/analysis by a qualified engineer,*
 32 *independent consultant, or other appropriate expert.”* The new Provisional
 33 Guidelines apply this requirement for capital projects greater than \$5 million,
 34 with the option of providing such information for expenditures between
 35 \$1 million and \$5 million where appropriate.²

36
 37 In Newfoundland Power’s view, with the exception of a change in materiality,
 38 there is no material difference in these requirements that would necessitate a
 39 different approach in providing reports in support of proposed expenditures.
 40 Whether a report is required from a qualified expert outside of the Company
 41 continues to be optional under the new Provisional Guidelines. The Company’s
 42 determination as to whether to retain an outside expert would generally depend
 43 on the nature of the expertise required and whether that expertise is available
 44 within the Company.

¹ See Policy Number 1900.6, *Capital Budget Application Guidelines*, revision date October 2007, page 8 of 11.

² See the Provisional Guidelines, page 17.

- 1 c) The quantification of risk requires the use of more advanced software and data
2 analytics than is currently available for Newfoundland Power’s capital projects
3 and programs.³ Newfoundland Power is undertaking a review of its asset
4 management practices which, among other matters, will evaluate options to
5 produce quantifiable risk values. For more information, see the responses to
6 Requests for Information PUB-NP-018 and CA-NP-038.

³ As examples, the quantification of risk can require the use of asset health indices to produce quantifiable condition scores for assets using weighted degradation factors, detailed models to derive failure probability curves, and analytical tools to quantify the safety, environmental, reliability and financial impacts of a failure.