

- 1 **Q. (Reference Application, Asset Management Update Report, page 4) It is**
2 **stated "The pilot project indicated that Newfoundland Power is currently not**
3 **in the position to implement quantitative risk modelling. AHIs factor into risk**
4 **modelling as they are a key determiner in probability of failure of an asset. It**
5 **would be prudent to determine which assets require risk modelling based on**
6 **the assets that are being selected for AHIs. As well, large amount of financial**
7 **inputs, such as the reactive cost of asset replacement, would need refinement**
8 **to provide a more accurate representation of risk for the assets. Given the**
9 **requirements of quantifiable risk modeling, further exploration should be**
10 **completed as asset management is matured." Given the huge increase in**
11 **costs in the renewal classification in the near term, why is further exploration**
12 **needed? Why would NP not give highest priority to quantifying risk for its**
13 **most costly programs/projects in the renewal classification such as that**
14 **required in the thermal generation category?**
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- 16 **A.** Asset management involves the coordinated activity of an organization to realize value
17 from assets, including the ability to balance cost, risk, and performance.¹ Through the
18 Company's asset management review, a pilot project was completed to inform an
19 approach to asset health indices and quantitative risk modeling. The findings and lessons
20 learned from this pilot project highlighted that asset health indices are a key determiner
21 in the probability of failure of an asset to achieve quantitative risk modeling.
22 Additionally, other inputs including large amounts of financial data such as the reactive
23 cost of asset replacement, would require refinement to provide a more accurate
24 representation of risk for the assets.
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- 26 Given the large number of assets owned by the Company, it is not feasible to
27 concurrently develop asset health indices for every asset. Instead, Newfoundland Power
28 would first assess the benefits of implementing asset health indices for each core asset
29 type, focusing on areas where this information will yield the greatest operational
30 efficiencies. Therefore, the development of asset health indices would be most effective
31 if approached incrementally. This stepwise implementation will occur over time as a
32 comprehensive framework for asset health indices is established.

¹ The Institute of Asset Management *Asset Management – An Anatomy*, page 8, available at iam-anatomy-version-4-final.pdf (theiam.org)