

1 **General**

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3 **Q. Does Newfoundland Power apply the same decision-making process to**
4 **projects under \$750,000 as it does for projects over \$750,000 to determine if**
5 **these projects should be included or deferred?**
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7 A. Yes. Newfoundland Power follows its comprehensive capital planning process for all
8 projects proposed in the Company's annual capital budget applications, regardless of
9 materiality. A detailed description of the Company's capital planning process follows.

10
11 General

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13 Newfoundland Power employs a comprehensive capital planning process which applies
14 sound engineering and objective data to determine which capital expenditures are
15 required annually to provide customers with access to safe and reliable service at the
16 lowest possible cost.

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18 The annual update of Newfoundland Power's capital plan reflects the latest: (i) condition
19 assessments of electrical system assets; (ii) forecasts of electrical system load;
20 (iii) changes in economic factors or industry requirements; and (iv) changes in
21 operational requirements.¹ This annual update can result in planned projects being
22 modified, advanced to an earlier year, deferred to future years, or removed entirely from
23 the planning period.

24
25 As capital projects move from the forecast period to the budget year, they are examined
26 in detail to further assess the scope and justification of the required work using criteria
27 outlined below. Once it is determined that a capital expenditure may be necessary,
28 Newfoundland Power assesses all viable alternatives for executing the required work.
29 This includes both alternatives to the scope of a capital expenditure, such as a
30 like-for-like replacement or upgrade, and alternatives that could result in the deferral of
31 capital expenditures.

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33 For the purposes of the organization of this response, the Company has provided details
34 on the specific criteria used in the decision-making process by investment classification
35 as they appear in the Provisional Guidelines.

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37 Mandatory

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39 Capital expenditures classified as Mandatory are driven primarily by legislative or
40 regulatory requirements.² This could be in the form of a Board Order, statute or
41 regulation.³

¹ See Newfoundland Power's *2025 Capital Budget Application, 2025 Capital Budget Overview, Section 2.2.3 Capital Project Planning*.

² Newfoundland Power's capital expenditures are informed by a variety of regulations, including regulations under the *Occupational Health and Safety Act* and *Electricity and Gas Inspection Act*.

³ For example, *General Expenses Capitalized* as outlined in the *2025 Capital Budget Application, Schedule B*, page 146, are charged in accordance with Order No. P.U. 3 (2022).

1 Should legislation be enacted or amended that impacts the Company's assets, capital
2 investments may be required to ensure compliance. For this reason, Mandatory capital
3 investments may be accelerated, but are generally not deferred within the Company's
4 capital plan.

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6 Access
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8 Capital expenditures classified as Access are driven primarily by customer connection
9 forecasts and responding to third-party requests.

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11 Newfoundland Power updates its capital plan annually to reflect its most recent
12 Customer, Energy and Demand Forecast. The Customer, Energy and Demand Forecast
13 estimates new customer connections that are expected over the next five years based
14 on economic inputs from the Conference Board of Canada, such as forecast housing
15 starts and completions. This data is then used to determine forecast expenditures to
16 connect new customers, including forecast for meters, services, and extensions to the
17 distribution system.⁴

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19 Generally, Access capital investments are not accelerated or deferred as they are an
20 ongoing requirement of the Company to provide customers with equitable access to an
21 adequate supply of power.

22
23 System Growth
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25 Capital expenditures classified as System Growth are driven primarily on forecasts of
26 electrical system load. System load forecasts are produced annually using computer
27 modelling to identify any areas where capital expenditures are required to respond to
28 customers' changing electrical system requirements.

29
30 System load forecasts may indicate that a substation power transformer or distribution
31 feeder are forecast to become overloaded in the five-year forecast period. In this
32 instance, the Company may initiate a study to determine the least-cost alternative to
33 address the overload condition.⁵

34
35 Generally, System Growth capital investments may be deferred or accelerated based on
36 the Company's annual update of its system load forecasts and assessment of actual load
37 measurements.

⁴ See Newfoundland Power's *2025 Capital Budget Application, Schedule B*, pages 17 and 40 for details on how customer connections are incorporated into the planning process for the *Extensions* and *New Services* programs.

⁵ For example, the *Distribution Feeder APT-02 Upgrade* filed as part of the Company's *2025 Capital Budget Application* as part of the *Feeder Additions for Load Growth* program was a study in response to electrical system growth in the Portugal Cove – St. Phillip's area. System load forecasts indicated that a 1.6-kilometer section of two-phase distribution feeder is overloaded. An assessment of alternatives was completed to determine the least-cost alternative to address existing and forecasted system load growth in the area.

Renewal

Capital expenditures classified as Renewal are primarily driven by the condition of electrical system assets. Information on asset condition is obtained through annual inspection programs,⁶ engineering reviews⁷ and recent operating experience.⁸ This information identifies equipment that is deteriorated, deficient, or has failed and requires replacement or refurbishment to extend its useful service life.

In some cases, Newfoundland Power may engage third-party consultants. For example, for proposed projects involving the replacement of power transformers, Newfoundland Power may engage a consultant to complete an analysis of the power transformer.⁹

Generally, Renewal capital investments may be deferred or accelerated based on the Company's annual review of the five-year capital plan and detailed condition assessments as outlined above. As capital projects move from the forecast period to the budget year, they are examined in detail to further assess the scope and justification of the required work.

Service Enhancement

Capital expenditures classified as Service Enhancement are primarily driven on quantified cost reductions to customers or investments that would result in customers receiving better service through the implementation of technology.

Certain capital management projects or programs reduce *overall* costs to customers. For example, the *LED Street Lighting Replacement* project provides customers with lower rates for a more reliable service.¹⁰

⁶ For example, the Company's *Transmission and Distribution Inspection and Maintenance Practices* establish classification priorities for transmission and distribution infrastructure based on the condition observed in the field. For both transmission and distribution, high-priority deficiencies and in-service failures are prioritized for the year in which they are identified. Other deficiencies are tracked and planned for execution during the following year.

⁷ For example, the *Distribution Reliability Initiative* involves: (i) calculating reliability performance indices for all feeders; (ii) analyzing the reliability data for the worst performing feeders to identify the cause of the poor reliability performance; and (iii) completing engineering assessments for those feeders where poor reliability performance cannot be directly related to isolated events that have already been addressed.

⁸ For example, the scope of work identified in the *Mobile Hydro Plant Penstock Refurbishment* project is based on component failures that have been identified through routine inspections, operating experience or engineering studies.

⁹ For example, the refurbishment of Humber Substation approved as part of Newfoundland Power's *2022 Capital Budget Application* included a condition assessment of power transformer HUM-T2 which was completed by a power transformer consultant. See Newfoundland Power's *2022 Capital Budget Application*, report *2.1 2022 Substation Refurbishment and Modernization*, Appendix B, Attachment B.

¹⁰ See Newfoundland Power's *2025 Capital Budget Application, Schedule B*, page 2.

1 Leveraging technology to improve service delivery to customers is an additional criterion
2 in the decision-making process for Service Enhancement capital investments. For
3 example, the *Distribution Feeder Automation* project involves increasing automation of
4 the distribution system through the installation of downline reclosers. These devices are
5 controlled remotely to: (i) isolate a fault so only a portion of customers on a feeder
6 experience an outage; and (ii) systematically restore power to customers following a
7 prolonged outage. The installation of downline reclosers allows a more efficient response
8 to customer outages, improves restoration times and decreases costs to customers.¹¹
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10 As new technologies become available and are proven to provide a benefit to customers,
11 either through an economic analysis or efficiency savings, capital investments may be
12 required to continue the provision of least-cost, reliable service. For this reason,
13 generally Service Enhancement capital investments may be accelerated, but are
14 generally not deferred within the Company's capital plan.

15 General Plant

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18 Capital expenditures classified as General Plant are broken out into three asset classes:
19 General Property, which involves physical assets, Transportation, which involves the
20 Company's vehicle fleet, and Information Systems, which involves computer hardware
21 and software.

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23 General Property expenditures are primarily driven by the condition of the Company's
24 physical assets.¹² In some cases, Newfoundland Power may engage a consultant to
25 complete inspections and condition assessments of its facilities.¹³ Transportation capital
26 expenditures are the result of the application of the Company's evaluation criteria to
27 determine whether a vehicle requires replacement.¹⁴ When these criteria are met,
28 vehicles are inspected by a certified mechanic to assess their condition and any required
29 repairs. The results of the inspections determine whether a vehicle can be economically
30 maintained for additional service or whether it has reached the end of its useful service
31 life. Only vehicles that are identified as being in poor condition and as having reached
32 the end of their useful service lives are replaced.

33
34 Information Systems capital expenditures are prioritized based on a number of factors,
35 including: (i) the criticality of a software application in providing service to customers;

¹¹ See Newfoundland Power's *2025 Capital Budget Application, Schedule B*, pages 12 to 16.

¹² For larger-scale scopes of work, such as the proposed *Port Union Building Replacement* project, Newfoundland Power conducts detailed condition assessments of the facility to identify deteriorated or failed components.

¹³ For example, the *Clarenville Area Office Building Refurbishment* project approved as part of the Company's *2022 Capital Budget Application* included an assessment report from Crosbie Engineering Ltd. which determined that replacement of the HVAC system was necessary. See Newfoundland Power's *2022 Capital Budget Application*, report *5.1 Clarenville Area Office Building Refurbishment*, Appendix A.

¹⁴ Newfoundland Power's replacement criteria for vehicles was described in the Company's *2016 Capital Budget Application*, report *5.1 Vehicle Replacement Criteria*. This report also compared the criteria to those used by other Canadian electrical utilities. It shows the approach of the Company is consistent with Canadian utility practice and the least-cost delivery of service to customers.

1 (ii) vendor requirements, including the expiration of vendor support and necessary
2 cybersecurity patches;¹⁵ (iii) equipment failures or observed performance issues;¹⁶ and
3 (iv) industry guidance on optimal technology lifecycles.¹⁷ Newfoundland Power applies
4 industry best practices to ensure the reliable operation of its IT infrastructure, including
5 computing equipment.

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7 Generally, General Plant capital investments may be deferred or accelerated based on
8 the Company's annual review of the five-year capital plan, the application of evaluation
9 criteria, and detailed condition assessments as outlined above.

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11 Overall, the criteria applied to all of the Company's assets to determine whether capital
12 expenditures are required in a given year demonstrate the comprehensive capital
13 planning process that Newfoundland Power follows. Evaluating capital expenditures
14 using these criteria ensure that only those capital expenditures required to provide
15 customers with safe and reliable service at the lowest possible cost are proposed in the
16 Company's annual capital budget applications.

¹⁵ For example, the replacement of Newfoundland Power's workforce management system was prioritized for 2022 as the existing system was discontinued and is no longer supported by its vendor. See Newfoundland Power's *2022 Capital Budget Application*, report *7.3 Workforce Management System Replacement*.

¹⁶ The Company monitors its personal computers ("PCs"), servers and network components to identify issues with their operation. Infrastructure that consistently fails or experiences degraded reliability, performance or security is upgraded or replaced.

¹⁷ Newfoundland Power historically has achieved a five-year lifecycle for PCs before they require replacement, compared to an industry average of three to five years. The shift to more mobile computers for the Company's flexible workforce has shifted the average life to four years across all computers. The Company achieves average lifecycles for its servers of seven years, compared to industry guidance of five years. The average lifecycles for network components vary by component.