Q. **(Reference CA-NP-003; CA-NP-011) CA-NP-011 states that planning activities are undertaken across capital planning, engineering, regulatory, finance and operations.**

a) Please describe the role of Finance in reviewing the financial and revenue-requirement consequences of the annual capital budget and five-year capital plan, including the financial information provided to Finance for that purpose.

b) In developing the 2027 Capital Budget and 2027–2031 Capital Plan, please explain whether NP established any financial constraint, target, guideline or acceptable range relating to: i) total capital expenditures; ii) rate-base growth; iii) incremental revenue requirement; or iv) customer rate or bill impacts. If yes, identify each such financial criterion and explain how it affected the level or timing of capital expenditures. If no, explain how NP determines that the aggregate financial consequences of its proposed capital expenditures are reasonable for customers.

c) Please explain whether Finance has a formal role in recommending changes to the level, timing or scope of proposed capital expenditures based on their rate-base, revenue-requirement or customer-rate consequences. If yes, please describe that role and provide examples arising from development of the 2027 Capital Budget or 2027–2031 Capital Plan. If no, please explain why not.

A. a) Newfoundland Power's annual capital budget and five-year plan are key inputs into Company financial and revenue requirement forecasts. Based on this information, Finance develops a *pro forma* revenue requirement analysis to estimate the revenue requirement impact resulting from the proposed capital expenditures included in the Application. This estimate is provided in the *2027 Capital Budget Overview*.[1]

b) Annual capital expenditure requirements are established through the annual capital planning process, including consideration of project need, risk, alternatives, timing and cost. Projects and programs are supported by engineering assessments, historical expenditures, customer and load forecasts, risk assessments, and least-cost or lifecycle analyses, as applicable. This process ensures that only those capital expenditures that are fully justified are proposed for recovery from customers. This, in turn, ensures the proposed capital expenditures result in the provision of least-cost service to customers.

The Board has recognized that fully justified capital expenditures enable the delivery of least-cost service to customers. In Order No. P.U. 7 (2002-2003), the Board stated: *"From a regulatory perspective, efficient operations, fully justified capital expenditures and a low cost capital structure all combine to minimize revenue requirement and hence provide least cost electricity to ratepayers."*

[1] See the *2027 Capital Budget Application, 2027 Capital Budget Overview,* section *2.3.3 Customer Rates.*

c) As provided in part b), the level, timing and scope of proposed capital expenditures are determined through the annual capital planning process based on the identified need, risk, alternatives, project schedule and cost. This process ensures only fully justified expenditures are proposed. The Board has recognized that fully justified expenditures are part and parcel of providing least-cost electricity to customers. While it would not be appropriate for Finance to recommend changes to fully justified expenditures based solely on revenue requirement and customer rate impacts, Finance does provide revenue requirement and customer rates analyses to support the capital budget process. These analyses are included in the *2027 Capital Budget Overview*.[2]

[2] *Ibid*.