Q. **Reference Application, Capital Programs and Projects, Replace Network Communications Equipment (2026-2027) page 10**

Chart 6 shows a massive increase (more than 150%) in expenditure on this program in 2026 compared to 2025 followed by similarly large expenditures in 2027 to 2030. It is stated (page 9) "*The forecast budget is derived from the average unit cost per device for the 2024 and 2025 applications, adjusted for inflation*."

a) Please explain the inflation adjustment that causes such an increase.

b) Please explain the higher expenditures in 2027 to 2030 considering the lower unit costs relative to 2026 for those years as provided in Chart 5 on page 6.

c) How large an increase in unit costs would lead Hydro to reduce the pace of this program?

A. **a)** The page 9 statement of "*The forecast budget is derived from the average unit cost per device for the 2024 and 2025 applications, adjusted for inflation*." is a typographical error. This statement should have read "*The forecast budget is derived from the average unit cost per device for the 2025 and 2026 applications, adjusted for inflation*."

b) Newfoundland and Labrador Hydro notes the incorrect figures were supplied for Charts 4 and 6. Please refer to the updated charts. It can be noted here that the expenditures between Charts 5 and 6 now track.

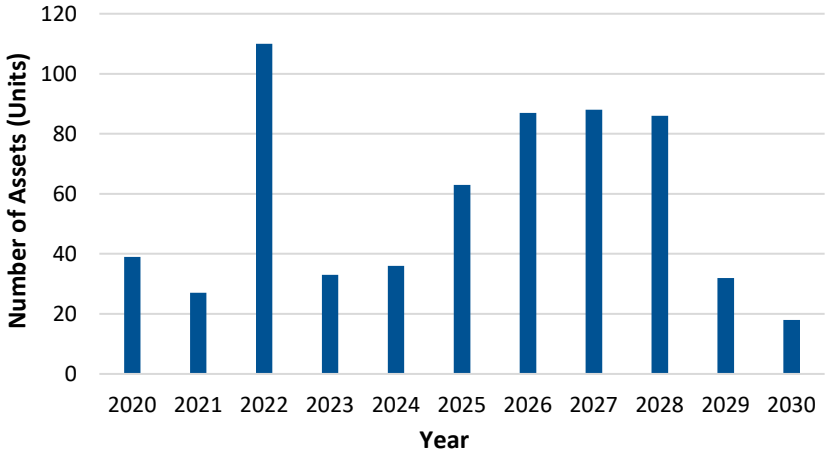

Chart 4 – Historical and Forecast Number of Assets Installed

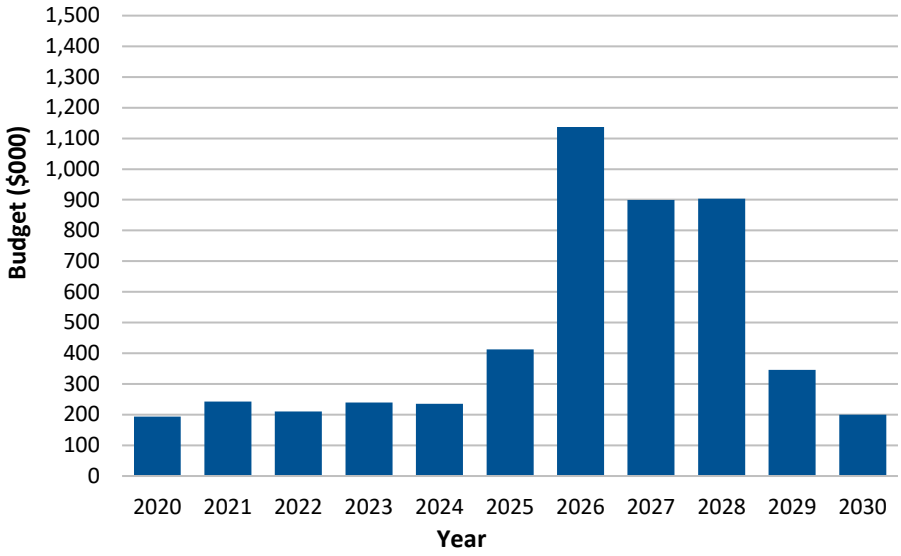

Chart 6 – Historical and Forecast Program Budget

c) The key driver of replacement within this program is the reduction of cybersecurity risk, not reduction in the probability of equipment failure. Reducing the pace of this program would leave obsolete network devices in service, escalating cybersecurity risk. Newfoundland and Labrador Hydro would need to consider and balance the increased

cybersecurity risk with the increased cost before making a decision to reduce the pace of this program.