

1 Q. **Reference: NP-NLH-021 and NP-NLH-026, Issue Topic: System Reliability and Customer**
2 **Operations.**

3 In the response to NP-NLH-021, Hydro states: *"A capital expenditure may be justified from a*
4 *technical, operational, safety, legislative, environmental, or other perspective, while still*
5 *permitting flexibility in the timing of the investment."*

6 Please explain to what degree Hydro considers market conditions, such as market demand and
7 availability, supply chain dynamics, inflation cost increases on utility services and materials,
8 when deciding to defer a capital expenditure that fits Hydro's description above.

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11 A. Newfoundland and Labrador Hydro ("Hydro") evaluates potential project deferrals using a risk-
12 informed approach that balances affordability considerations with its obligation to provide safe
13 and reliable service. Hydro reviews market trends, inflationary impacts, labour availability, and
14 supply chain conditions to develop reasonable project cost estimates and execution schedules;
15 however, these factors alone do not determine whether a project proceeds. In many cases,
16 evolving supply chain dynamics and increased market demand have extended procurement
17 timelines for critical equipment, including diesel generating units, circuit breakers, and
18 transformers. As a result, Hydro has, where appropriate, extended schedules and advanced the
19 timing of certain project and program proposals to ensure that equipment can be procured and
20 received when required to support forecasted project execution and system needs.

21 When determining whether a project can be deferred, Hydro considers the implications of
22 deferral on the continued safe, reliable, and least-cost operation of the electrical system. Part of
23 that assessment includes the potential for increased future costs, reduced procurement
24 certainty, schedule delays, and higher lifecycle costs to customers. In circumstances where
25 market conditions are expected to materially affect project execution or costs, such as with the
26 proposed Avalon Combustion Turbine project, these factors form part of Hydro's overall
27 prudence assessment. Accordingly, Hydro will defer projects where doing so can be achieved

- 1 without materially increasing operational or customer risks and proceed with a necessary
- 2 project when the risks associated with deferral outweigh the benefits of postponement.