Q. **Reference: CA-NLH-038 p2; CA-NLH-039 pp2-5; CA-NLH-021(c)-(d); CA-NLH-042 pp2-3**

Assuming 2027 expenditure under this Application were limited to 90% of the revised request, identify Hydro's preferred package and priority order of scope reductions, staging or deferrals. Show the 2027 expenditure reductions separately from later expenditure and lifecycle-cost effects. Explain material service, safety and environmental consequences, dependencies and cumulative risks, distinguishing existing commitments. If Hydro considers this scenario incompatible with its service obligations, identify the largest feasible reduction and provide the evidence supporting the limiting constraints.

A. Newfoundland and Labrador Hydro ("Hydro") believes that managing this work under a 'budget envelope' approach may put assets and system reliability at risk and it would not be prudent to proceed in that manner. In the 2020 Capital Budget Application ("CBA") Guidelines Review process, Midgard Consulting Inc.'s explanation of a capital budget envelope is of a scenario where the regulator reviews a CBA and approves an amount that represents all or some portion of the total proposed budget, without specifically approving or disapproving specific projects.[1]

Hydro submits that the capital envelope approach does not align with the requirements of the *Public Utilities Act* and will reduce clarity for the Board of Commissioners of Public Utilities and parties with respect to the investments to be made which is contrary to the purpose of the capital budget approval process.[2]

Further, Hydro maintains that its proposed 2027 Capital Expenditures are prudent, justified, and necessary to meet its statutory mandate. Hydro therefore would not recommend deferral of any of its proposed expenditures within its 2027 CBA.

[1] "Capital Budget Application Guidelines Review – Midgard Consulting Report – Revised," Midgard Consulting Inc., October 30, 2020, p. 22.
[2] "Capital Budget Application Guidelines Review – Newfoundland and Labrador Hydro's Response to Submissions of the Island Industrial Customer Group and the Consumer Advocate," Newfoundland and Labrador Hydro, July 21, 2021, p. 1.