

## **APPENDIX 2**

### **REASONS FOR DECISION HYDRO 2003 CAPITAL BUDGET APPLICATION FILED SEPTEMBER 18, 2002**

#### **BACKGROUND**

On September 18, 2002 Hydro filed an application (the “Application”) with the Board of Commissioners of Public Utilities (the “Board”) requesting approval of its 2003 capital budget in the amount of \$33,070,000.

Notice of the Application was published in several newspapers circulating throughout the Province commencing on October 5, 2002.

On October 17<sup>th</sup>, 2002 the Board received notices of intervention from Abitibi Consolidated Inc., Stephenville and Grand Falls Divisions, Corner Brook Pulp and Paper Company, Limited and on October 21<sup>st</sup>, 2002 from North Atlantic Refining Limited of Come-by-Chance.

The public hearing into the Application commenced in the hearings room of the Board on October 28<sup>th</sup>, continued on October 29<sup>th</sup> with final submissions on November 4, 2002.

Maureen Greene Q.C., was present as Counsel for Hydro.

Janet Henley Andrews Q.C. and Joseph Hutchings Q.C. were present as Counsel for Abitibi Consolidated Inc., Stephenville and Grand Falls Divisions; Corner Brook Pulp and Paper Company, Limited; and North Atlantic Refining Limited.

Dwanda Newman was present as Counsel for the Board.

## **LEGISLATION**

Section 41. (1) of the Act requires that a public utility submit its annual capital budget of proposed improvements or additions to its property to the Board for approval not later than the 15<sup>th</sup> day of December in each year for the next calendar year; and Section 41(2) of the Act requires that the budget shall contain an estimate of future required expenditures on improvements or additions to the property of the public utility that will not be completed in the next calendar year; and Section 41(3) of the Act requires that a public utility shall not proceed with the construction, purchase or lease of improvements or additions to its property where

- (a) the cost of the construction or purchase is in excess of \$50,000; or
- (b) the cost of the lease is in excess of \$5,000 in a year of the lease

without the prior approval of the Board.

### **PREVIOUS BOARD ORDER**

In Order P.U. 7 (2002-2003) the Board gave notice to Hydro that commencing with its 2003 capital budget application Hydro is to use a net present value methodology, together with supporting justification, to evaluate projects of a material amount. In addition, the Board set out guidelines in Schedule 3 to that Order which guidelines are to be used by Hydro in future capital budget applications.

### **THE APPLICATION**

The following is an overview of the proposed 2003 capital budget expenditures as contained on page A-2 of Section A of the Application:

	<b>Expenditures To 2002</b>	<b>2003</b>	<b>Future Years</b>	<b>Total</b>
	<b>(000's \$)</b>			
Generation	37	4,961	1,386	6,384
Transmission and Rural Operations(TRO)	15	10,033	2,836	12,884
General Properties	269	17,076	12,717	30,062
Allowance For Unforeseen Events	0	1,000	0	1,000
<b>Total Capital Budget</b>	<b>321</b>	<b>33,070</b>	<b>16,939</b>	<b>50,330</b>

A further breakdown, together with project descriptions, justification and future planned expenditures of the various budget projects formed part of the Application and was provided to the Board and to the Intervenors in advance of the hearing.

Hydro called the following five witnesses to testify in support of its application:

Derek Osmond, Vice-President of Finance and Chief Financial Officer

Panel 1

Jim Haynes, Vice-President of Production

Eric Downton, Director of Information Systems and Telecommunications

Panel 2

David Reeves, Vice-President of Transmission and Rural Operations

Gordon Holden, Director of Engineering and Transmission, Rural Operations Division

The Industrial Customers did not call any witnesses.

## **EVIDENCE AND SUBMISSIONS**

In its reasons for decision, the Board will refer only to the pre-filed evidence, the direct evidence, evidence contained in the various responses to requests for information, cross-examination and submissions that it believes are relevant to its decision.

### **Opening Statements**

In her opening statement, Ms. Greene explained that Hydro's proposed 2003 capital budget is in accordance with s. 37. (1) of the Act in that it recognizes Hydro's statutory obligation to provide service and facilities which are reasonably safe and adequate and just and reasonable. She explained that all of the proposed capital expenditures were screened using four broad evaluation criteria to determine if they were required to ensure (i) public safety; (ii) employee safety; (iii) compliance with

Federal and Provincial environmental legislation and commitments and agreements with the regulatory authorities; and (iv) reduced costs and improved efficiencies.

Ms. Greene also stated that in preparing the 2003 capital budget Hydro was cognizant of the Board's Order P.U. 7 (2002-2003) in which guidelines and conditions were established to be applied to Hydro's future capital budget applications.

Mr. Hutchings, in his opening statement on behalf of the Industrial Customers, explained that his clients' interests lie in obtaining reasonable service at the least possible cost. He further stated that since the budget, if approved, will have a direct impact on Hydro's rate base and rates, the Industrial Customers, who pay \$40 million to \$50 million a year for electricity, have an obvious significant interest. He further stated that it was not his intention in addressing the various issues to give the impression that he was attempting to micro-manage Hydro and suggested that the Board should not attempt that either. He advised that he would be dealing with matters on a level of generality that will provide protection to the consumer and at the same time give Hydro the ability to manage its business.

### **Evidence of Derek Osmond**

Mr. Osmond described the capital budget preparation process that takes place annually within Hydro including the review processes at the various levels of management, the approval process carried out by the Management Committee and submission to and review by the Board of Directors prior to the application going forward to the Board for consideration and approval.

Hydro's customer base, as described by Mr. Osmond, consists of Newfoundland Power, five industrial customers and 35,000 rural customers.

In describing his role in Hydro's capital budget process Mr Osmond stated that it is to ensure that proper instructions are issued to the staff; guidelines, time frames and schedules are reviewed with the Comptroller; and that the Management Committee is properly briefed prior to making a presentation to the Board of Directors. He then works with the staff in putting the budget document together for submission to the Board. Following approval of the budget, Mr. Osmond explained that it is incumbent on him to make sure that the reporting systems are adequate to monitor actual expenditures versus budget on a monthly and quarterly basis. He also described his participation in the preparation of the quarterly reports that are required to be filed with the Board.

In determining the amount of the capital budget, Mr. Osmond stated that in addition to the four criteria described by Ms. Greene, Hydro determines what it can afford in relation to its cash flow generated from net income adjusted for non-cash items such as depreciation and other items and generally how the capital budget will be financed. Normally the amount of the expenditures on capital projects in any year closely approximates the amount of depreciation in that year. The 2003 capital budget at \$33 million is lower than it has been for the past seven years. He explained that Hydro takes advantage of lower interest charges and uses promissory notes up to a maximum of \$300 million before issuing long-term bonds at a higher interest rate to replace the promissory notes.

Under cross-examination by Ms. Henley Andrews the witness clarified the application of the criteria relating to the use of the amount of depreciation to target the amount of the capital budget in any one year explaining that a major project involving generation or reliability would likely cause the budget to exceed the amount of depreciation. Also, on the question of whether Hydro looks at private industry guidelines in establishing its own budgetary guidelines, Mr. Osmond stated that utilities are required, by statute, to meet service and reliability standards and, therefore, don't have the budget flexibility of private industry.

With respect to the impact of the 2003 capital budget on rate base, Mr. Osmond explained that there will be no impact on rate base until Hydro files its rate application in 2003 for the 2004 test year.

In response to questions from Board Counsel, Mr. Osmond described the factors that go into the calculation of the projects. He further explained that some of the factors vary proportionately depending on the parts and materials involved. He also stated that because some parts and equipment require long lead times to obtain from the manufacturer or supplier it is necessary to spread some projects over periods longer than one year.

**Panel 1**

JIM HAYNES, Vice-President of Production

ERIC DOWNTON, Director of Information Systems and Telecommunications

Both witnesses acknowledged and accepted the explanations of the various budget projects contained in Hydro's application and which pertained to their individual areas of responsibility.

During cross-examination by Ms. Henley Andrews the project described on page B-5 of Hydro's capital budget application, namely, the upgrading of the controls on spherical valve No. 1 at Bay d'Espoir was discussed and Mr. Haynes explained that the 36 maintenance events experienced for this control system is much higher than usual. He stated that three or four maintenance events in a year is normal and because the proper functioning of the valves is so critical to the operation of the turbine units it is essential they operate at maximum efficiency. A major failure of the spherical valve controls, he explained, could take 150 megawatts out of service, so the question of upgrading the controls becomes a matter of maintaining reliability of the system.

In their Request For Information, IC-21, the Industrial Customers asked Hydro to provide the expected improvement in SAIDI and SAIFI reliability indices for various projects described in the application as increasing system reliability. In its response, Hydro explained that the impact cannot be quantified and the statements regarding reliability improvements were made in the context of perceived improvement in reliability and availability performance of the specific pieces of equipment.

During cross-examination on the replacement of draft tube stoplogs at Paradise River (page B-5), Mr. Haynes explained that the stoplogs are 14 years old and several maintenance projects have been



carried out on them over the past several years. Proper maintenance of the stoplogs is a major safety issue since a failure would likely result in loss of life.

The capital budget project described on page B-18 proposing the installation of site fencing at Bay d'Espoir was questioned by Ms. Henley Andrews as to whether or not it was necessary. Mr. Haynes explained that because of the increasing number of people gaining or attempting to gain access to the site for fishing purposes and as a result of a recent review of site security it was deemed necessary to install the chain link fence to address the issues of security and both public and employee safety. Furthermore the project described on page B-19, the purchase and installation of security locks at a number of plants, is also as a result of an increased awareness of security related issues and a decision by Hydro to have complete control of access to Hydro plants and the ability to monitor traffic year round.

When questioned by Ms. Henley Andrews on the replacement of the turbine electro hydraulic control(EHC) system on unit # 1 at Holyrood thermal plant, Mr. Haynes explained that of the three generating units at Holyrood only unit # 2 has black start capability. The project described on page B-21 will increase the black start capability of two of the generators and provide more flexibility in the event of a major system blackout. In justifying the project, on page B-22, the witness pointed out that a study was completed in 1997 to investigate the need and feasibility of upgrading or replacing the electrical section of the EHC. The report, which is contained in Section G, Appendix 2 of the Application, recommended the replacement of the EHC control systems on both units in 1999.

The controls on unit number # 2 were replaced during a major maintenance outage in 1999 and the

proposed Mark V EHC controls for unit # 1 will allow full governor control so the unit can be used to black start a de-energized system.

Ms. Henley Andrews cross-examined Mr. Haynes on the projects described on pages B-26 and B-28 of the Application. Both projects are intended to address environmental measures that Hydro is proposing to implement as a result of assessments and studies that have been done or to address Department of Environment requirements, or both. In response to PUB 2.0 Hydro stated, that as a result of concerns expressed at public information sessions, individual public complaints and discussions with residents in nearby communities it was decided to install a temporary monitoring site, for a period of six months, to measure ambient conditions and to confirm whether the complaints were founded on fact. Sufficient data was provided to warrant further investigation and the decision to pursue a mobile site was made to permit future re-location to other areas that may be affected, thus limiting the need for permanent sites and reducing the attendant increase in operating and maintenance costs.

In her final argument, Ms. Greene summarized the projects in an attempt to clear up any misunderstanding in respect of possible duplication and the necessity for the projects. She explained that the project referred to by Ms. Henley Andrews that was approved in Hydro's 2002 capital budget was a project to study what goes up the stacks. The project proposed on page B-26 is to look at where the particulate lands and the study described on page B-28 is to study future options regarding emissions from the Holyrood thermal plant.

The condition and future options regarding the replacement of the steel liner in stack #1 at Holyrood was questioned by Ms. Henley Andrews who questioned Mr. Haynes on the selection of the option to replace the steel liner over the option to repair and maintain it over the short term. Three options were evaluated by Hydro using a net present value calculation, a copy of which was submitted as part of the justification for the project described in Hydro's application beginning at page B-32. Mr. Haynes described the existing condition of the liner which, he stated, is 34 years old and recent inspections have determined it is no longer reliable and should be replaced. He supported the replacement of the liner as the least cost option and the one that provides maximum reliability and lowest risk of failure until 2020. He also pointed out that the net present value calculations do not take catastrophic failure into account and emphasized that if the liner fails it will add to the cost and will be out of service for six months requiring the lost generation capacity to be replaced by gas turbine generation.

The cross-examination of Mr. Downton was carried out by Mr. Hutchings on behalf of the Industrial Customers. He began by asking Mr. Downton to relate the IT Technical Architecture Strategy Report that was filed with Hydro's general rate application and capital budget last year with the Telecommunications Plan (Section H) and the KEMA Report (Section G, Tab 5), both filed in support of the current application.

Mr. Downton explained that the Telecommunications Plan, originally prepared in 1995, was intended to deal with obsolescent technologies in the telecommunications area. The IT Architectural Strategy which was done about a year ago was intended to lay out a plan for the traditional

information systems (IS) technologies and the KEMA Report was to deal with technical obsolescence of the Energy Management System, which is used by Hydro's energy control centre to monitor, control and manage the power system and related water resources across the Province. In explaining the purpose of the three reports he stated that it was Hydro's intention to reduce the number of technologies throughout its infrastructure and therefore reduce its operating and maintenance costs while at the same time building in a higher degree of availability and reliability.

Mr. Downton confirmed that the only projects to which Hydro is committed, coming out of the three reports mentioned above, are those contained in the 2003 capital budget application. He emphasized that projects scheduled to come on stream beyond 2003 will be part of Hydro's capital budget submissions in future years.

There was considerable cross-examination by Mr. Hutchings of Mr. Downton regarding the various projects that Hydro intended to go forward in 2003 and beyond. Mr. Downton was questioned extensively on the approach taken by Hydro to upgrade and replace existing communications infrastructure and operating systems. Using the examples of the digital microwave and the energy management system, he stated that Hydro's future requirements were primarily the guiding factor in its decision. Another factor, he explained, that impacted Hydro's decision, is that many elements of the existing communications infrastructure are no longer supported by the manufacturers who haven't been available to provide training to Hydro personnel since 1995/96.

On page B-91 of the Application it is stated that the existing energy management system, which is reaching the end of its projected useful 15-year life, is critical to the continued efficient and reliable operation of the electric power system and generation facilities. Mr. Downton stated that an energy management system actually consists of a Supervisory Control and Data Acquisition System (SCADA), an Automatic Generation Control (AGC), economic dispatch and power system analysis tools and other applications.

The project described on p. B-120 of Hydro's application is a migration assessment study to develop the design and implementation plan of a wide area network (WAN) communications infrastructure to replace the existing fifteen-year old operational data and voice network which uses General Datacom infrastructure. Under questioning by Mr Hutchings it was stated by Mr. Downton that in the assessment process of this and other projects it is fundamental to select the least cost alternative, where possible.

In discussing the enterprise storage management infrastructure described on B-99 of the application, Messrs. Haynes and Downton, responding to questions by Mr. Hutchings, explained that Hydro is faced with having to expand all its disk space because memory requirements are growing in leaps and bounds. The project proposed on B-99 involves the installation and configuration of a storage area network (SAN) that will allow for the consolidation of all disk storage requirements for Hydro's server platforms deployed at Hydro Place and the installation of a single tape storage system to replace the four tape storage systems currently in use. This consolidation of disk space within a

SAN will not only allow for control of disk space allocation between servers, but will ensure high availability, recovery and less administration. The tape storage system will back up the disk storage from the SAN providing a single point of backup and, when the EMS is replaced, it will also be used to back up the disc storage associated with the EMS. Mr. Downton stated that over a seven-year period the SAN technology will be about \$700,000 cheaper and will reduce Hydro's operating and maintenance costs in this area by about 45% and save approximately \$400,000.

The End User and Server Evergreen Program described on page B-101 of the application is intended to refresh the end user workstation infrastructure and the server and operating systems. It is proposed to refresh end user hardware on a 3-5 year life cycle and servers on a 5-year life cycle. In justifying this project on page B-102, Hydro stated that it will allow the Corporation to take advantage of new functionality offered in new end user and server hardware models and in new releases of the operating system. Three Options were considered for the end user infrastructure and are summarized on page B-103 of the Application as follows:

1. Continue current refresh program;
2. Move to thin client deployment; or
3. Buy out lease and fix or replace as equipment ages.

Hydro chose to go with Option 2 at a capital cost in 2003 of \$774,300. In response to questioning by Mr. Hutchings it was explained by Mr. Downton that Option 2 will mean a significant reduction in administrative costs and that Option 1 will not support the J. D. Edwards system.

The capital project described on page B-115 is to replace four remote terminal units (RTUs) used for remote monitoring and control of plants and terminal stations from the energy control centre. As explained on page B-115 and in answer to Mr. Hutchings' questions Mr. Downton confirmed that this is phase four of a nine-phase program to replace all obsolete RTUs which are no longer supported by the manufacturers and are at or near the end of their useful lives.

Board Counsel, Ms. Newman, questioned the witnesses regarding the inclusion of expected future years' capital expenditures contained in the "Explanations" sheets provided by Hydro. Mr Haynes explained that approval of the expenditures projected beyond 2003 will be sought in future years' capital budget applications. He admitted, however, that in some cases where projects are carried into future years before completion, and bearing in mind that each year's capital budget requires Board approval in the prior year, there is a possibility of costs being stranded if future years' budgets aren't approved.

In discussing the project described on pages B-91 to B-96 of the application, the replacement of the computer software and hardware infrastructure of the energy management system, Mr. Downton, in response to Ms. Newman, stated that once you allow parts and equipment to go beyond the expected useful life you can expect a situation similar to what is happening now in that Hydro is experiencing an increase in the number of failures. When that happens, he explained, you want to be in the planning cycle to replace the failing system parts. In response to IC-21 Hydro stated that failure to proceed as proposed will result in a deterioration of current performance indices to the end customer in the near future.

In response to a question by Commissioner Powell regarding the emphasis on reliability and safety in putting together Hydro's capital budget Mr. Haynes stated that general guidelines are issued to supervisors, the engineering department and regional and plant managers.

**Panel 2**

DAVID REEVES, Vice President of Transmission and Rural Operations, and

GORDON HOLDEN, Director of the Engineering Department in the Transmission and Rural Operations Division.

The witnesses acknowledged and accepted the explanations contained in the transmission and rural operations section of Hydro's capital budget application.

Mr. Hutchings questioned Mr. Reeves on the proposal contained on page B-46 to upgrade the station services at Long Harbour Terminal Station. In his response, Mr. Reeves explained that the existing station service at Long Harbour is fed from the customer's equipment and provides service to only one customer, the Long Harbour Alliance. Hydro's capacitor bank is located in the station and it is not always readily accessible. Hydro proposes to purchase and install transformers and associated equipment necessary to provide station service directly from the 46kv bus in the Long Harbour Terminal Station. The main purpose of the station at the present time is voltage control on the east coast.



In describing the project contained on page B-48 Mr. Reeves, in response to a question from Mr. Hutchings, explained that the installation of motor drive mechanisms on disconnect switches at Sunnyside terminal station is primarily to address a safety issue associated with manual switching. He further stated that similar motor drive mechanisms will be installed at other terminal stations during the next two to three years and similar requests for approval of the Board will be contained in future capital budget applications.

In response to a question from Ms. Newman, regarding the demand side management analysis contained on page B-87, Mr. Reeves explained the calculation and the conclusions respecting the fuel storage at Postville, Labrador. The end result was that demand side management was not an effective approach to defer capital costs at Postville since it does not provide sufficient funds to achieve the energy deferral targets.

### **Closing Arguments**

In her closing argument, Ms. Greene cited the statutory requirements contained in the Act requiring Hydro to provide services and facilities which are reasonably safe and adequate and just and reasonable. In addition, Ms. Greene referred to section 3(b) of the *Electrical Power Control Act*, SN 1994 c. E-5.1, which requires a utility's services and facilities to be managed and operated in the most efficient manner that results in power being delivered to customers at the lowest possible cost consistent with reliable service. She went on to state that it is clear from the legislative provisions of both the *Public Utilities Act* and the *Electrical Power Control Act* that proposed capital expenditures

must be required for safe, adequate, reliable power or service for customers and they must be considered in the context of cost and the implications for least cost power for customers. This, Ms. Greene stated, is an exercise in judgement and is not an exact science.

In commenting on the multi-year projects contained in Hydro's application Ms. Greene indicated that where projects show, in addition to 2003 expenditures, capital dollars will be required in future years, Hydro will include in future applications a request for further review and approval of those multi-year projects by the Board.

Referring to the 2003 capital budget, Ms. Greene said, it is the minimum level of capital expenditures required to provide reliable, safe power to Hydro's customers and that the evidence put forward by Hydro in its application and during the hearing clearly supports approval of the Application in its entirety.

In her summation, Ms. Henley Andrews pointed out that the Industrial Customers are responsible for a significant portion of the common costs of the island interconnected power system, which costs have increased as a result of P.U. 7 (2002-2003). She also asked the Board to bear in mind that while the actual cost of energy is a serious and significant business issue for the Industrial Customers, reliability and availability of the power system is probably more important to her clients than to the average customer. Ms. Henley Andrews argued that Hydro's 2003 capital budget, if approved, will result in increased costs at today's rate of return on equity of \$4,559,000 plus operating and maintenance costs.

In response to the specific projects contained in Hydro's 2003 capital budget Ms. Henley Andrews indicated that her clients are reasonably satisfied and consent to a number of projects for which Hydro is seeking the Board's approval. (Transcript, November 4, Page 3, Lines 69 - 94) Some of the remaining items, she argued, raise a real issue as to whether they should be included in the 2003 capital budget at all. They are the unit #7 exciter at Bay d'Espoir, the gate hoist at Ebbegumbaeg and the loader/backhoe at Bay d'Espoir. She explained that her objection to these particular projects was in relation to the small portion of capital required in 2003 in relation to the total capital required to complete the projects in future years. She pointed out that the statutory requirements do not appear to allow the Board to approve capital projects on a multi-year basis and where engineering work is completed in year one of a multi-year project it is very difficult for the Board and the Intervenor to deal with the continuation of the projects in Hydro's future years' budget applications.

Ms. Henley Andrews submitted that, if the Board approves the engineering portions of the projects requested in Hydro's 2003 capital budget, it should be very clear in its decision that it is only the engineering portion that is approved and approval of additional parts of the projects will have to be submitted to the Board in subsequent capital budget applications.

Several other projects were commented on by Ms. Henley Andrews in final argument, among them the site fencing at Bay d'Espoir, the security locks at certain hydro plants, the ambient monitoring system at Holyrood, the flue gas particulate removal study and the stack liner at Holyrood #1 stack. She argued that these projects are not justified by the evidence provided by Hydro and suggested that the Board deny, modify or postpone the projects for lack of sufficient justification.

Mr. Hutchings emphasized that the Board has to judge Hydro's capital budget proposals using as a guidepost the provision of reliable service at least cost. He also agreed that the Board can only approve capital budgets on a year to year basis and that the continuing multi-year projects, included in Hydro's 2003 application, have to be re-submitted for approval annually.

In his argument, Mr. Hutchings commented on Hydro's proposals contained on pages B-106 and B-109 of its Application which dealt with, respectively, the installation of a new microwave system interconnection between the east and west coasts and the replacement of powerline carrier equipment in the west coast transmission system. He questioned whether or not the digital microwave system is required or, whether the enhanced powerline carrier system is sufficient and will serve Hydro's purpose and corporate goal of providing reliable service at least cost. In reference to these projects, Mr. Hutchings expressed concern that the IT Architecture Strategy Report did not identify the provision of service at least cost among its governing principles.

Mr. Hutchings argued that "We recognize that there should be planning for the future in the construction of the telecommunications network but the issue before the Board here is to pass judgement on whether or not the potential future possibilities, as opposed to probabilities or actual plans, justify the spending of the additional money". (Transcript, November 4, 2002, Page 8) He went on to state that the Board has a duty to scrutinize the judgements of Hydro and how that judgement was exercised in the past. He admitted, however, that if these projects are not approved by the Board, other things will have to be done to address the issues that these proposals are intended to address.

In referring to the storage area network project (SAN) contained on page B-99 of the application Mr. Hutchings suggested that the project should be deferred for a year which he maintained would save Hydro \$1 million and provide another year of experience on which to draw in making a decision regarding its data storage capacity.

In commenting on the end user and evergreen program project referred to on page B-101 of the application, Mr. Hutchings suggested that Hydro ought to be required to re-submit this project and give justification for proceeding with Option 2.

In reply to the arguments put forward by Counsel for the Industrial Customers, Ms. Greene explained that certain projects require long lead times and must allow for engineering work, proper scheduling and delivery of equipment. She also emphasized that because of recent events, particularly the 9/11 catastrophe in the United States, Hydro is more cognizant than ever that the public is adequately protected, and that utilities are generally more aware than ever of the need to improve security and safety.

Referring to the need to replace the stack liner in stack #1 at Holyrood, Ms. Greene pointed out that Hydro is very aware of the cost implications but the risk of failure of the liner, in the opinion of Hydro's engineers, is not acceptable.

**Request for Costs by the Industrial Customers**

Mr. Hutchings asked the Board to award costs in favour of the Industrial Customers. The request was opposed by Ms. Greene on behalf of Hydro.

**FINDINGS OF THE BOARD**

Throughout the hearing, the Industrial Customers called on the Board to scrutinize Hydro's judgement in respect of its decisions to propose certain capital projects at this time. The Board is cognizant of its responsibility in this regard and appreciates the impact on the Industrial Customers that the approval of this capital budget will have. However, the Board also accepts and agrees with the position of Counsel for the Industrial Customers that the Board should not "micro manage" the utilities.

Hydro is obligated by the relevant legislation to provide reasonably safe and adequate service at the lowest possible costs consistent with reliable service. Hydro provided evidence and made submissions that, based upon the judgement of its staff, the proposed budget and improvements and additions satisfy this requirement.

During the hearing and in its Application, Hydro reported that it uses four broad criteria in making this determination:

- public safety
- employee safety
- compliance with legislation; and
- reduced costs and improved efficiencies.

In addition, Hydro, throughout the Application, provided detailed justification of the budget and the improvements and additions. The Board finds that Hydro has conformed to the requirements of P.U. 7 (2002-2003) with respect to this Application.

The Board is satisfied that Hydro has, throughout the process, provided sufficient justification that the approval of its proposed 2003 capital budget and the purchase, construction and lease of improvements or additions to its property is required to maintain safe, adequate, reliable, least cost power for its customers. Therefore, the Board having considered all of the evidence and submissions, has concluded that the Application should be approved.

Costs for the Industrial Customers are denied.

Hydro will be required to pay the expenses of the Board arising from this Application.