

HYDRO 2004 CAPITAL BUDGET
NEWFOUNDLAND POWER ORAL SUBMISSION
SPEAKING NOTES

July 28, 2003

Mr. Chair, Commissioners, as the purchaser of the bulk of the electrical energy generated by Hydro, Newfoundland Power has a significant stake in Hydro's annual capital expenditures.

This year, from our review of Hydro's capital budget application, it appeared that one project, in our judgment, was not justified on the face of the record; and, Newfoundland Power intervened in this proceeding for the purpose of reviewing the detailed evidence with respect to that project - that project being the VHF Mobile Radio Replacement project found at page B-71 of the Application.

We have confined our intervention in this proceeding to the VHF Mobile Radio Replacement project. And, today, we will also confine our remarks to that project.

As noted in our written submission, Hydro has not, in Newfoundland Power's view, justified its proposal to spend \$8.8 million to replace the VHF radio system at this time.

This is not to suggest that some expenditure on the radio system is not required...but merely that the project as currently proposed has not been shown either to be necessary or to be least cost.

All else being equal, it is the Board's obligation pursuant to the Electrical Power Control Act, 1994, to approve only those capital expenditures that are consistent with the provision of least cost electrical service. If alternative viable solutions exist to an identified capital expenditure requirement, it is the utility's obligation to evaluate the pros and cons of those alternatives, and

to present cost justifications to the Board that will enable it to discharge its obligation under the legislation.

It is remarkable in this particular instance that the mobile radio system that is currently preferred by Hydro, the Passport system, is not even mentioned in the principal documentation filed in support of the project. Neither the Business Case nor the Consultant's Report appended to it mention the system, which Hydro identified almost 2 years ago, and its first mention on the record was during direct examination of the panel on the first day of the hearing. The cost information on this system provided in response to an undertaking is acknowledged to be an "order of magnitude" estimate only, and not as detailed as the estimates provided by Hydro's consultant. We submit that this level of uncertainty with respect to cost and technology is not appropriate in relation to the approval of an almost \$9.0 million capital expenditure.

Further, where a solution is proposed that is not least cost, then Newfoundland Power submits that information should be placed on the record that clearly shows why the higher cost solution provides better value to the utility and its customers.

In relation to the VHF radio project, Hydro has chosen to propose a solution that is not the least cost. The conventional radio technology is the least cost. Hydro has acknowledged that the conventional technology provides all the required functionality. And, there is no compelling evidence on the record that Hydro needs the features of the newer technology...technology that, if adopted, forces Hydro to throw out the entire existing mobile radio system...repeaters, radios, the works.

And, it is evident from the record that technology choices can significantly affect cost. The variability among the cost estimates for the systems reviewed by the Consultant should give the Board pause. The estimates varied by several million dollars. The

currently preferred Passport system is estimated at \$5.7 million, which is the same cost as the system recommended by the Consultant. But, this is not as detailed an estimate as the ones in the Consultant's report. There also appeared to be some uncertainty among the witness panel with respect to the specifics of the cost estimate on the Passport system.

We submit that, as the record currently stands, there is a significant degree of uncertainty with respect to what a new VHF radio system will cost. Hydro testified that a more detailed process of radio system design has yet to take place. And, from the cost estimates already on the record, it is clear that choice of technology or choice of system can result in a significant cost variance. In the circumstances, we believe that an approval of the capital expenditure at this stage would be premature.

Newfoundland Power also believes that it is appropriate that Hydro address the concerns implied in our Request for

Information NP-3, and reiterated by Mr. Barreca in response to the Chair's question...Before consigning the existing radio system to the trash heap, we believe that Hydro ought to fully evaluate to what extent the life of the current system can be extended.

Merely observing that certain components are manufacturer discontinued and that, based on typical experience, others may not be supported by vendors is not sufficient justification for an almost \$9.0 million expenditure.

Hydro has acknowledged that, with the exception of some recent failures, particularly with the central switch, the system has essentially continued to provide adequate function. Yet, the Board is now being asked to accept that it is now appropriate to reject the current technology and throw out the whole system. As you will recall, Mr. Barreca, who has long experience of telecommunications systems, testified that it is not unusual for telecommunications equipment to provide service well beyond its expected service life.

In the response to NP-3, Hydro initially stated that they didn't consider trying to extend the life of the system because of an Industry Canada requirement to move from 25 kilohertz to 12.5 kilohertz radio channels, and because the repeaters had been manufacturer discontinued. During the hearing, however, Hydro acknowledged that the radio channel issue would not be an issue if they were to stick with the old system. In addition, they now know that compatible repeater equipment can be obtained, and that this would have manufacturer support. It may therefore be the case that the life of Hydro's existing VHF system can be extended by a program of replacement based on a detailed condition assessment of the components of the system. Mr. Barreca testified that this may be the least cost solution to Hydro's mobile radio requirements.

If it turns out, after detailed examination, that extending the life of the current system is not a viable option, then Hydro must bring

forward a solution which is either least cost or, failing that, which provides demonstrated additional value. The record now before the Board does not meet that standard.

...

Before closing, I would like briefly to address an issue that was raised in the Closing Submission of Board Hearing Counsel.

First, in paragraph 34, there is a reference to an expenditure of \$383,000 on telecommunications in Newfoundland Power's 2003 capital budget. I want to clarify that most of that amount relates to line protection and remote control and monitoring, and not to voice communications.

Paragraph 43 of Counsel's submission contains the statement that "NP has avoided making any meaningful, or enforceable commitments about sharing in the cost of and subsequently using the new VHF system."

There is nothing on the record, however, to suggest that Newfoundland Power has been less than cooperative in relation to the sharing of telecommunication facilities with Hydro. It was Hydro's evidence, in fact, that discussions have taken place with Newfoundland Power and information has been exchanged.

This is not about cooperation between the utilities. It is simply a question of what is the least cost for Newfoundland Power's customers.

Mr. Hughes testified during Newfoundland Power's capital budget hearing last year that Newfoundland Power had made a determination, following discussions with Hydro, that our participation in the new VHF radio system was not a cost-effective proposition at that time. He testified that our management disagreed with Hydro's decision to replace their VHF system and that it was more than Newfoundland Power was willing to pay. Ultimately, Newfoundland Power has the obligation to assess

what is the least cost telecommunications system for our customers.

Having heard all of the evidence on the record in this proceeding, Newfoundland Power is still of the view that the proposed new VHF radio system is simply too rich for us. And, with the introduction of a different system architecture, it would appear, as Board Hearing Counsel notes in paragraph 38 of his submission, that previous estimates of Newfoundland Power's cost of participation may well be outdated.

With the uncertainty over both technology and price that are now apparent on the record, we must be conscious of the fact that the costs of Newfoundland Power's participation may have become even less favourable than before.

Newfoundland Power's radio system has been in place since the early 80s. It is still providing good service. Hydro's evidence is

that Newfoundland Power has advised them that our system has 5 to 10 years of useful life remaining. With that in mind, it is our submission that having Newfoundland Power become involved in developing Hydro's mobile radio system to the extent suggested in paragraph 48 of Board Hearing Counsel's written submission is not necessary.

The Board will soon be hearing Newfoundland Power's 2004 capital budget application. If the Board wishes to hear from Newfoundland Power's management on its current view of Hydro's VHF radio proposal, I am sure they will be happy to answer the Board's questions.

To sum up, Chair and Commissioners, Newfoundland Power reiterates the submissions in our written brief of argument, and asks the Board to withhold its approval of the VHF radio proposal at this time, and to require Hydro to re-file its proposal with a more detailed evaluation of the radio system they intend to build, and a

better explanation of why the proposed expenditures are necessary.

[Some further comments were also provided in relation to questions from the Chair.]

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