
Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**IN THE MATTER OF THE
2015 CAPITAL BUDGET APPLICATION**

**FILED BY
NEWFOUNDLAND POWER INC.**

**DECISION AND ORDER
OF THE BOARD**

ORDER NO. P.U. 40(2014)

BEFORE:

**Andy Wells
Chair and Chief Executive Officer**

**Darlene Whalen, P.Eng.
Vice-Chair**

**Dwanda Newman, LL.B.
Commissioner**

**James Oxford
Commissioner**

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. P.U. 40(2014)

IN THE MATTER OF the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 (the “*EPCA*”) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the “*Act*”), as amended, and regulations thereunder; and

IN THE MATTER OF an application by Newfoundland Power Inc. for an Order pursuant to Sections 41 and 78 of the *Act*:

- (a) approving its 2015 Capital Budget of \$94,211,000;
- (b) multi-year projects involving future capital expenditures of \$19,804,000; and
- (c) fixing and determining its average rate base for 2013 in the amount of \$915,820,000.

BEFORE:

Andy Wells
Chair & Chief Executive Officer

Darlene Whalen, P. Eng
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1 **I BACKGROUND**

2
3 **1. The Application**

4
5 Newfoundland Power Inc. ("Newfoundland Power") filed its 2015 Capital Budget Application
6 (the "Application") with the Board of Commissioners of Public Utilities (the "Board") on June
7 26, 2014. In the Application Newfoundland Power requests that the Board make an Order:

- 8
9 a) approving Newfoundland Power's purchase and construction in 2015 of the
10 improvements and additions to its property in the amount of \$94,211,000;
11 b) multi-year projects involving future capital expenditures of \$19,804,000; and
12 c) fixing and determining Newfoundland Power's average rate base for 2013 in the amount
13 of \$915,820,000.

14
15 In accordance with the legislation, regulations and Board guidelines the Application includes a
16 detailed explanation of each proposed expenditure, setting out a description, justification, costing
17 methodology and future commitments, if applicable. Additional studies and reports, including
18 detailed engineering reports, are provided in relation to a number of projects.

19
20 In compliance with previous Board Orders the Application also includes specific information
21 required to be filed, including a report on 2014 capital expenditures, a five-year capital plan, as
22 well as evidence relating to deferred charges and a reconciliation of average rate base to invested
23 capital.

24
25 **2. Board Authority**

26
27 Section 41 of the *Act* requires a public utility to submit an annual capital budget of proposed
28 improvements or additions to its property for approval of the Board no later than December 15th
29 in each year for the next calendar year. In addition, the utility is also required to include an
30 estimate of contributions toward the cost of improvements or additions to its property which the
31 utility intends to demand from its customers.

32
33 Subsection 41(3) prohibits a utility from proceeding with the construction, purchase or lease of
34 improvements or additions to its property without the prior approval of the Board where (a) the
35 cost of the construction or purchase is in excess of \$50,000, or (b) the cost of the lease is in
36 excess of \$5,000 in a year of the lease.

37
38 Section 78 gives the Board the authority to fix and determine the rate base for the service
39 provided or supplied to the public by the utility and also gives the Board the power to revise the
40 rate base. Section 78 also provides the Board with guidance on the elements that may be
41 included in the rate base.

1 **3. Application Process**
2

3 Notice of the Application, including an invitation to participate, was published on July 2, 2014.
4 Details of the Application and supporting documentation were posted on the Board's website.
5

6 Intervenor submissions were received from the Consumer Advocate Mr. Thomas Johnson,
7 Newfoundland and Labrador Hydro ("Hydro") and Mr. Danny Dumaresque. On July 18, 2014 a
8 total of 55 Requests for Information ("RFIs") were issued to Newfoundland Power by the
9 Consumer Advocate, Hydro and the Board. An additional 19 RFIs were issued by Mr.
10 Dumaresque on July 22, 2014. Newfoundland Power responded to the RFIs on July 30, 2014.
11 The intervenors did not file additional evidence and did not request a technical conference or oral
12 hearing of the Application. Written submissions were filed by the intervenors on August 5, 2014
13 and Newfoundland Power filed its reply submission on August 8, 2014.
14

15 Grant Thornton, the Board's financial consultants, were retained to review the calculations of the
16 2013 actual average rate base. Grant Thornton filed a report on July 31, 2014 and copies were
17 provided to Newfoundland Power, Mr. Dumaresque, the Consumer Advocate and Hydro.

1 **II PROPOSED 2015 CAPITAL BUDGET**

2
3 **1. Overview**

4
5 Newfoundland Power's proposed 2015 capital budget is \$94,211,000. The estimated
6 expenditures by asset class are as follows:

<u>Asset Class</u>	<u>Budget (000s)</u>
1. Generation - Hydro	\$ 4,698
2. Generation - Thermal	216
3. Substations	22,478
4. Transmission	5,731
5. Distribution	42,473
6. General Property	3,224
7. Transportation	2,917
8. Telecommunications	123
9. Information Systems	7,501
10. Unforeseen Allowance	750
11. General Expenses Capitalized	4,100
Total	<u>\$ 94,211</u>

7 **2. Evidence and Submissions**

8
9 Newfoundland Power provided detailed information supporting the overall capital budget for
10 2015 as well as the individual proposed expenditures. The supporting information for each of the
11 projects is comprehensive and consistent with the level of information filed in recent capital
12 budget applications and in accordance with the Board's Capital Budget Guidelines.

13
14 The Application proposes a 2015 capital expenditure of \$94,211,000. The Application also
15 includes five multi-year projects involving future capital expenditures of \$19,804,000. The
16 Application states that approximately 48% of the proposed 2015 capital expenditures is related to
17 the replacement of plant and a further 36% is required to meet Newfoundland Power's obligation
18 to serve new customers and meet the requirement for increased system capacity. The remaining
19 16% of forecast expenditures is related to information systems, general expenses capitalized,
20 third party requirements and financial carrying costs.

21
22 Distribution capital expenditures, as in previous years, accounts for the greatest percentage of
23 overall expenditures. According to Newfoundland Power these expenditures are primarily driven
24 by customer requests for new connections to the system. Newfoundland Power advises that,
25 while distribution capital expenditures to address reliability have been reduced in recent years,
26 the Distribution Reliability Initiative will address reliability issues associated with two urban
27 feeders in 2015.

1 Capital expenditures are planned in 2015 for certain substations to address customer load growth.
2 Newfoundland Power plans to install new power transformers at Clarendville, Lethbridge and at
3 the Kenmount Substation, St. John's.

4
5 Transmission line rebuilds are proposed in 2015 for four lines in the City of St. John's and one
6 line in the Stephenville area. Newfoundland Power advises that these transmission lines are
7 deteriorated and have reached a point where continued maintenance is no longer feasible.

8
9 In 2015 Newfoundland Power has proposed a two-year project to replace the penstock at the
10 Pierre's Brook hydro plant and single-year projects to refurbish the Seal Cove and Tors Cove
11 hydro plants.

12
13 According to the 2015 Capital Plan annual capital expenditures for the next five years (2015-
14 2019) are forecast to average approximately \$97 million, with a low of \$93.2 million in 2018 and
15 a high of \$106.7 million in 2016. Newfoundland Power states that this level of annual
16 expenditure is broadly consistent with inflation adjusted annual expenditures for the previous
17 five years. The replacement of plant has been, and will continue to be, the dominant driver of
18 Newfoundland Power's planned capital expenditures, accounting for approximately 50% of total
19 expenditure for the 10-year period from 2010 through 2019. During the same time period, capital
20 expenditures to meet increased customer connections and electricity sales account for 33% of
21 total expenditures.

22
23 The Consumer Advocate submits that increasing levels of planned capital expenditures
24 reinforces the imperative that approval should only be given to projects demonstrated to be
25 necessary for Newfoundland Power to provide service at the lowest possible cost while still
26 providing reliable service. The Consumer Advocate also states that all projects and expenditures
27 should consider the impact of the Muskrat Falls project and whether the project or construction
28 will be required at its current level of use after interconnection. The Consumer Advocate raised
29 specific concerns and objections in relation to three proposed projects: i) Transportation; ii)
30 Application Enhancements-Property Records Management System Improvements/Inventory
31 Management; and, iii) Pierre's Brook Hydro Plant.

32
33 Hydro submits that the Board should delay its consideration of the Pierre's Brook project until
34 further assessment of the implications of the Muskrat Falls power purchase agreement and
35 marginal cost can be completed.

36
37 Mr. Dumaresque submits that there will be surplus power in the near and long term future and
38 urges the Board to reject all capital requested by Newfoundland Power. He did not make any
39 submissions on specific projects.

40 41 **3. Board Findings**

42
43 The Board has reviewed the evidence filed in support of the proposed 2015 capital budget and
44 each of the proposed capital expenditures in excess of \$50,000. The Board notes that the
45 evidence shows that Newfoundland Power's inflation adjusted capital spending level over the
46 period 2010 to 2019(F) is trending gradually upward with two years of somewhat higher

1 spending in 2014(F) and 2016. The average annual capital expenditures over the period 2010 to
2 2014 expressed in 2014 dollars was \$87,584,000. (PUB-NP-003) The Board notes Mr.
3 Dumaresque's request that all capital projects be rejected but agrees with Newfoundland Power
4 that the timing, necessity and appropriateness of the investment to meet the obligation to serve
5 on a least cost basis involves sound engineering judgment. Newfoundland Power has provided
6 comprehensive evidence in support of the proposed capital expenditures and submits that no
7 other evidence was presented to contradict this evidence.

8
9 The Board finds that Newfoundland Power has demonstrated that the replacement of plant and
10 capital expenditures necessary to satisfy customer growth and to meet the requirements of
11 increased system capacity are the main drivers for the proposed capital spending. The Board has
12 examined each of projects proposed by Newfoundland Power and is satisfied that, with the
13 exception of the three projects which are specifically addressed below, the proposed capital
14 projects are adequately justified and are appropriate and necessary in the circumstances.

15
16 Transportation (\$2,917,000)

17
18 Newfoundland Power states that transportation capital expenditures from 2015 through 2019 are
19 expected to increase to an average of approximately \$3.2 million annually, an increase of
20 \$600,000 per year from 2010 through 2014. The increase is principally reflective of inflation and
21 the number of heavy fleet and passenger vehicles expected to meet the replacement parameters
22 during that period, as well as a plan to increase the heavy fleet from 72 units to 79 units.
23 Newfoundland Power states that increasing the heavy fleet will improve efficiency and will
24 accommodate the increase in the number of journeyperson powerline technicians resulting from
25 the advancement of apprentices and the reduction in the number of three-person crews.

26
27 The Consumer Advocate notes that while Newfoundland Power has criteria for vehicle
28 replacement, it does not provide any current information on the criteria used by other Canadian
29 utilities. The Consumer Advocate submits that the vehicle replacement practices of other utilities
30 should be considered. Transportation is an ongoing cost for which there is no reference to
31 standards employed by the electric utility industry to determine if the approach taken by
32 Newfoundland Power is reasonable. The Consumer Advocate notes that Hydro is required to
33 provide information in relation to the vehicle replacement policy of other Canadian utilities with
34 its capital budget application and Newfoundland Power should be required to do the same on a
35 go forward basis.

36
37 Newfoundland Power notes that the Consumer Advocate does not oppose the proposed vehicle
38 replacements for 2015. Newfoundland Power states that replacement of vehicles is based upon
39 assessment of the condition of individual vehicles, and not on age and mileage thresholds.
40 Newfoundland Power submits that the information on vehicle age and mileage criteria provided
41 in Hydro's capital budget application is not relevant to the Board's consideration of its 2015
42 proposed vehicle replacements.

43
44 The Board notes that Newfoundland Power uses age and mileage thresholds as two of its criteria
45 in the determination of whether a vehicle should be replaced. As set out in CA-NP-07 vehicles
46 reaching age and mileage thresholds are also evaluated on a number of factors, such as overall

1 condition, maintenance history and immediate repair requirements, to determine whether they
2 have reached the end of their useful service lives. The Board is satisfied that the 2015 vehicle
3 replacements are justified based on the evidence that Newfoundland Power has determined that
4 they will reach the end of their useful lives in 2015. The project will be approved as proposed.
5

6 The Board sees merit in requiring information in relation to the vehicle replacement criteria of
7 other Canadian utilities. In its next capital budget application where expenditures are proposed in
8 relation to vehicle replacements, Newfoundland Power will be expected to provide information
9 on the vehicle replacement policies for other Canadian utilities.
10

11 Application Enhancements-Property Records Management System Improvements/Inventory
12 Management (\$151,000 and \$394,000)
13

14 Newfoundland Power proposes a capital expenditure in the amount of \$151,000 to replace the
15 current application used to manage its real property records. Approximately 20,000 files related
16 to property records are stored at the head office. The current application for managing these files
17 is over 20 years old and requires employees to manually retrieve and copy the original paper
18 record. Newfoundland Power submits the project to replace this application will improve
19 efficiency by reducing the manual effort required to provide access to property records. The
20 project will also reduce the risk associated with loss or damage to the paper records by replacing
21 them with electronic versions.
22

23 The Consumer Advocate submits that more evidence justifying the need for this project is
24 required. The Consumer Advocate states that Newfoundland Power has no information as to how
25 frequently the vault where the physical documents are kept is accessed during a day or a week.
26

27 Newfoundland Power states that the current application is used on a daily basis and estimates
28 that the new application will enable 7 to 8 hours of weekly labour savings, in addition to
29 maintaining the integrity of the property records. Newfoundland Power explains that the project
30 has a positive net present value of \$17,000 over an expected application life-cycle of 10 years,
31 providing a tangible benefit for ratepayers. Newfoundland Power submits that the project is
32 justified and should be approved.
33

34 Newfoundland Power also proposes capital expenditures in the amount of \$394,000 to
35 implement a number of enhancements to its inventory management systems. These include: (i)
36 the use of Radio Frequency Identification technology in the management of tools and equipment
37 used in field operations; (ii) improvements to the tracking of inventory leaving the warehouse via
38 heavy fleet vehicles; and (iii) enhancements to the updating of corporate applications required as
39 a result of work completed in the field. Newfoundland Power submits that this project will
40 improve tool management and assignment procedures using Radio Frequency Identification
41 technology to track tool location and condition, ensuring crews are able to effectively perform
42 their work. It will improve inventory management processes by automatically verifying that
43 truck inventory items are correct as trucks leave supply yards, ensuring that crews have the right
44 materials when they arrive at the job site. The project will also improve operational efficiency
45 and customer service by automating the dispatch of customer service work orders to field crews
46 and eliminating the manual updating of corporate applications with records of completed work.

1 The Consumer Advocate states that there is very little to justify this project. He notes there are
2 no records of actual incidents of required materials and/or tools not being available when
3 required and it is difficult to determine how often this is an issue with the current system. He
4 further submits that it is not clear how the new system will alleviate the concern that materials or
5 tools may be utilized overnight which may be required the next morning. The Consumer
6 Advocate submits that this project should be rejected.

7
8 Newfoundland Power states that the problem of materials and tools not being on trucks is a
9 common occurrence and that it is also common that materials stocked on a truck the day before a
10 planned job are used overnight and need to be replenished. The project will replace what has
11 been a largely manual process with automatic verification of truck inventory. Newfoundland
12 Power states that the project has a positive net present value of \$47,000 over an expected
13 application life-cycle of 10 years and should be approved.

14
15 The Board notes the positive improvements these projects will make to Newfoundland Power
16 employee work processes with benefits in record retention, retrieval and maintenance, and
17 operational efficiencies. In terms of the data on the number of times the vault is accessed or that
18 tools are not available, the Board is satisfied that Newfoundland Power has provided sufficient
19 evidence and that additional information is not required. The Board also notes the positive net
20 present value of the projects, which is to the benefit of ratepayers. These projects will be
21 approved as proposed.

22
23 Pierre's Brook Hydro Plant (\$14,280,000)

24
25 Newfoundland Power proposes a two-year project to replace and refurbish the 2,533 m penstock
26 and refurbish the surge tank at the Pierre's Brook hydroelectric generating plant ("Pierre's Brook
27 Plant"), located on the Avalon Peninsula near the community of Witless Bay. The Pierre's Brook
28 Plant provides 3.4 MW of capacity and 24.4 GWh of annual energy production. Engineering
29 design and procurement work for the penstock and site preparation work including access roads
30 will be completed in 2015. The replacement of the woodstave section of the penstock and the
31 refurbishment of both the steel section of the penstock and the surge tank will take place in 2016.
32 The total estimated capital expenditure is \$14,280,000, with \$750,000 to be spent in 2015 and
33 \$13,530,000 in 2016.

34
35 This project is justified by Newfoundland Power on the basis of independent engineering
36 assessments, which found that the 2,470 m woodstave penstock installed in 1965 has reached the
37 end of its useful life and requires replacement. The 63 m steel section of the penstock is in good
38 condition with the exception of the exterior coating and concrete foundations, which require
39 refurbishment. Routine inspections of the surge tank in early 2013 identified certain deficiencies
40 and safety issues which Newfoundland Power is proposing be addressed during the same plant
41 outage required for the penstock replacement in 2016. Additional work is also planned for 2016
42 for the Pierre's Brook Plant to coincide with the planned outage, including switchgear upgrades,
43 protection and control upgrades and refurbishment of the Gull Pond forebay dam. According to
44 Newfoundland Power these projects have an estimated total expenditure of \$1.58 million which
45 is not part of this Application but will be included in the 2016 capital budget application.

1 Newfoundland Power states that the present worth feasibility analysis of projected capital and
2 operating expenditures for the Pierre's Brook Plant determined that the levelized cost of energy
3 from the plant over the next 50 years is 4.87¢ per kWh. Newfoundland Power states that this is
4 significantly less than the cost of replacement energy at the Holyrood Thermal Generation
5 Station, which is estimated at 16.76¢ per kWh. Newfoundland Power submits that this project is
6 the least cost alternative on the basis of current marginal energy costs for the Island
7 Interconnected system and also the energy costs associated with power purchase agreements with
8 arms-length parties.

9
10 Hydro notes in its submission that the Pierre's Brook Plant is part of the overall system
11 capability of the Island Interconnected system and is reflected in Hydro's supply planning,
12 providing both capacity and energy benefits to existing customers. According to Hydro, while
13 the levelized cost of energy 4.87¢ per kWh for the Pierre's Brook Plant is less than the most
14 current available estimate of marginal energy cost for the Island Interconnected system, there is
15 uncertainty with respect to the marginal costs on the Island Interconnected system beyond 2017.
16 Hydro states:

17
18 *Hydro believes that "the marginal cost of demand and energy should reflect the*
19 *commercial arrangements between Nalcor and Hydro for costs of electricity from Muskrat*
20 *Falls and for the costs of the new transmission infrastructure. After those arrangements*
21 *have been finalized, a marginal cost study would be required to determine Hydro's future*
22 *marginal costs of demand and energy."*¹
23

24 According to Hydro there is relevant information not yet provided to the Board that may
25 influence the decision in determining if approval of the Pierre's Brook project is consistent with
26 the provision of least cost service. Hydro submits that the Board should delay its consideration
27 for approval of the Pierre's Brook project until Newfoundland Power and Hydro further assess
28 the implications of the Muskrat Falls power purchase agreement dated November 29, 2013.

29
30 The Consumer Advocate submits that Newfoundland Power has not adequately evaluated
31 alternatives to the project, including plant retirement, life extension or a complete rebuild of the
32 plant in light of the age of the plant. According to the Consumer Advocate the absence of such an
33 evaluation makes it difficult to assess how the project will maximize the benefits of this
34 renewable resource for Newfoundland Power customers. The Consumer Advocate states that
35 these alternatives should be evaluated on the basis of the recently available Muskrat Falls power
36 purchase agreement. The Consumer Advocate submits that Newfoundland Power should fully
37 assess the implications of this agreement on marginal costs to ensure customers receive the
38 benefit of an evaluation based on the most relevant information available. The Consumer
39 Advocate suggests that the cost for this project of \$4200/kW appears high when compared to the
40 cost for Hydro's 100 MW combustion turbine project of \$1052/kW. The Consumer Advocate
41 submits that the Board should reject this project and order Newfoundland Power to submit a
42 complete assessment of the alternatives to this project. A delay until such a study is completed is,
43 according to the Consumer Advocate, *"the prudent and reasonable approach during this period*
44 *of significantly increasing electricity rates"*. The Consumer Advocate also states:

¹ Hydro refers to its response to CA-NLH-033 filed in its General Rate Application Proceeding.

1 *Further, given that there may be a number of these types of hydro rehabilitation projects*
2 *on the horizon for both Newfoundland Power and Hydro, the Consumer Advocate*
3 *recommends that an evaluation framework and methodology be developed by Hydro and*
4 *Newfoundland Power in an effort to standardize and expedite the evaluation process for*
5 *such projects in the future. The Pierre's Brook plant should be the first to be evaluated*
6 *under this framework and methodology.*

7
8 In its submission Newfoundland Power states that the proposed project to refurbish the Pierre's
9 Brook Plant has been evaluated against the reasonable alternatives, including the most current
10 publicly available estimates of Hydro's marginal costs and Hydro's power purchase agreements
11 with arms length parties. These alternatives all indicate energy costs higher than the 4.87¢ per
12 kWh associated with the refurbishment and continued operation of the Pierre's Brook Plant.
13 Newfoundland Power notes that the evidence filed by Hydro in its 2013 general rate application
14 sets out marginal cost estimates for the Island Interconnected system ranging from 5.4¢ per kWh
15 in 2018 to 7.2¢ per kWh in 2022. Newfoundland Power also submits that the final costs
16 associated with the Muskrat Falls project will not be certain for a number of years and there is no
17 evidence that the accuracy of Hydro's marginal cost estimate will be materially improved by
18 further analysis at this time. Newfoundland Power also notes that the inter-utility planning
19 committee considered the cost of energy associated with the refurbishment and continued
20 operation of the Pierre's Brook Plant.

21
22 The Board notes the engineering assessment completed by AMEC found the woodstave penstock
23 section to be in overall poor condition and recommended it be replaced. If there is a catastrophic
24 failure of the penstock the required repairs would have to be done under unplanned conditions
25 and would most likely result in higher costs and longer outages. The Board is satisfied, based on
26 the evidence, that the project is necessary to ensure continued operation of the Pierre's Brook
27 Plant. The issue for the Board is whether the project as proposed is consistent with the provision
28 of least-cost service.

29
30 Hydro suggests that consideration of approval of this project should be delayed until
31 Newfoundland Power and Hydro further assess the implications of the Muskrat Falls power
32 purchase agreement dated November 29, 2013. The Board notes that it appears, based on the
33 evidence (NLH-NP-007 1st Revision), that the project has already been considered in the context
34 of joint planning between the utilities. An excerpt from the May 20, 2014 meeting minutes of the
35 Inter-Utility System Planning and Reliability Committee were provided in the response to NLH-
36 NP-007. These minutes document the view of the committee that the levelized energy costs of
37 4.9¢ per kWh for the Pierre's Brook plant project "compare favourably to both Holyrood
38 avoided fuel cost and the expected range on the future cost of supply." This meeting was held
39 almost six months after the power purchase agreement was signed.

40
41 Hydro also states that further information may be provided to the Board at some later date that
42 may influence the determination by the Board on the least-cost assessment for this project.
43 According to Hydro an updated marginal cost study is required which would reflect the
44 commercial arrangements between Nalcor and Hydro for the costs of electricity from Muskrat
45 Falls and for the costs of the new transmission infrastructure, once these arrangements are
46 finalized. No indication was provided by Hydro in this proceeding on the status of the
47 commercial arrangements between Nalcor and Hydro or on whether the updated marginal cost

1 study is underway. In the Board's view, in the absence of this information and in the context of
2 the need to address the conditions of the penstock and surge tank at the Pierre's Brook Plant, the
3 proposed capital project is justified on the basis of the most current available information,
4 including the system marginal costs.

5
6 The Board does not agree with the Consumer Advocate's position that Newfoundland Power has
7 not properly evaluated this project against the alternatives or with his assertion that the cost of
8 this project appears high. The Pierre's Brook Plant is part of the overall system capability of the
9 Island Interconnected system and should be evaluated against supply costs of, and alternatives
10 available, for future supply on the Island Interconnected system. It is clear from the evidence that
11 Newfoundland Power properly assessed the project on this basis using the most current available
12 estimates of marginal energy cost for the Island Interconnected system. Further, the marginal
13 cost estimates for the Island Interconnected system provided by Hydro in its general rate
14 application are well above the levelized energy cost identified by Newfoundland Power for the
15 Pierre's Brook Plant of 4.87¢ per kWh.

16
17 In addition the Board notes that Newfoundland Power provided evidence in relation to additional
18 system benefits which the Pierre's Brook Plant provides to the Island Interconnected system. In
19 response to PUB-NP-004 Newfoundland Power explains that this plant provides voltage support
20 to the system, and, in an emergency, can provide service to some customers while the high
21 voltage system is being restored. Newfoundland Power also explains that there are system
22 reliability benefits after interconnection with Muskrat Falls. The Board finds that the evidence
23 demonstrates that the Pierre's Brook Plant continues to be an important part of the overall system
24 capability on the Island Interconnected system.

25
26 The Board finds that, based on the evidence, the proposed project for the Pierre's Brook Plant is
27 necessary to ensure the continued safe operation of the facility and is consistent with the
28 provision of least-cost service.

29 30 **4. Conclusion**

31
32 The Board finds that the proposed purchases and construction projects in excess of \$50,000,
33 including the multi-year projects proposed to start in 2015, are prudent, reasonable and necessary
34 for Newfoundland Power to continue to provide safe and reliable service and should be
35 approved. The Board also finds that the proposed total capital budget for 2015 is prudent and
36 reasonable and will, therefore, approve Newfoundland Power's 2015 Capital Budget in the
37 amount of \$94,211,000.

1 **III. 2013 AVERAGE RATE BASE**

2
3 The following table shows the calculation of the actual average rate base for 2013 compared with
4 2012:

	(000s)	
	<u>2013</u>	<u>2012</u>
Net Plant Investment		
Plant Investment	\$1,501,729	\$1,439,646
Accumulated Amortization	(623,645)	(602,616)
Contributions in Aid of Construction	<u>(31,911)</u>	<u>(31,006)</u>
	846,173	806,024
Additions to Rate Base		
Deferred Pension Costs	101,159	100,113
Credit Facility Costs ²	-	239
Cost Recovery Deferral – Seasonal/TOD Rates	95	93
Cost Recovery Deferral – Hearing Costs	644	-
Cost Recovery Deferral – Regulatory Amortizations	2,214	3,320
Cost Recovery Deferral – 2012 Cost of Capital	1,177	1,766
Cost Recovery Deferral – 2013 Revenue Shortfall	2,252	-
Cost Recovery Deferral – Conservation	2,085	227
Customer Finance Programs	<u>1,363</u>	<u>1,446</u>
	110,989	107,204
Deductions from Rate Base		
Weather Normalization Reserve	5,058	4,804
Other Post Employment Benefits	23,515	14,617
Customer Security Deposits	840	851
Accrued Pension Obligation	4,325	4,020
Accumulated Deferred Income Taxes	1,872	2,504
Demand Management Incentive Account	<u>(272)</u>	<u>558</u>
	35,338	27,354
Year End Rate Base	921,824	885,874
Average Rate Base Before Allowances	903,849	867,902
Rate Base Allowances		
Materials and Supplies Allowance ³	5,445	5,332
Cash Working Capital Allowance	<u>6,526</u>	<u>9,811</u>
Average Rate Base at Year End	<u>\$915,820</u>	<u>\$883,045</u>

Source: Application, Schedule D

² For 2013, the unamortized credit facility costs are included as a component of the Company's weighted average cost of capital and are therefore excluded from the calculation of average rate base. The exclusion of deferred credit facility costs adjusts the 2013 calculation of average rate base filed in Return 3 of Newfoundland Power's 2013 Annual Report to the Board.

³ This differs from the materials and supplies allowance included in the 2013 calculation of average rate base as filed in Return 3 of Newfoundland Power's 2013 Annual Report to the Board. The materials and supplies allowance included in Return 3 of the 2013 Annual report understated the final material and supplies costs for 2013.

1 Grant Thornton reviewed the calculation of the actual average rate base for 2013 and provided an
2 opinion that the calculation is accurate and in accordance with established practice and previous
3 Board Orders. Grant Thornton also reviewed the additions, deductions and allowances included
4 in the rate base and found no discrepancies or unusual items or non-compliance with Board
5 Orders.

6

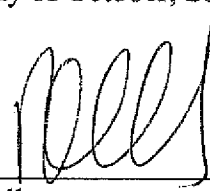
7 The Board will approve all of the components of Newfoundland Power's average rate base for
8 2013 in the amount of \$915,820,000.

1 IV ORDER

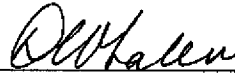
2
3 **IT IS THEREFORE ORDERED THAT:**

- 4
-
- 5 1. Newfoundland Power's proposed construction and purchase of improvements or
-
- 6 additions to its property to be completed in 2015, as set out in Schedule A to this Order,
-
- 7 are approved.
-
- 8
-
- 9 2. Newfoundland Power's proposed multi-year construction and purchase of
-
- 10 improvements or additions to its property to begin in 2015, as set out in Schedule B to
-
- 11 this Order, are approved.
-
- 12
-
- 13 3. Newfoundland Power's 2015 Capital Budget for improvements or additions to its
-
- 14 property in an amount of \$94,211,000, as set out in Schedule C to this Order, is
-
- 15 approved.
-
- 16
-
- 17 4. Newfoundland Power's average rate base for the year ending December 31, 2013 is
-
- 18 hereby fixed and determined at \$915,820,000.
-
- 19
-
- 20 5. Unless otherwise directed by the Board, Newfoundland Power shall file an annual
-
- 21 report to the Board on its 2015 capital expenditures by March 1, 2016.
-
- 22
-
- 23 6. Unless otherwise directed by the Board, Newfoundland Power shall provide, in
-
- 24 conjunction with the 2016 Capital Budget Application, a status report on the 2015
-
- 25 capital budget expenditures showing for each project:
-
- 26
-
- 27 (i) the approved budget for 2015;
-
- 28 (ii) the expenditures prior to 2015;
-
- 29 (iii) the 2015 expenditures to the date of the application;
-
- 30 (iv) the remaining projected expenditures for 2015;
-
- 31 (v) the variance between the projected total expenditures and the approved
-
- 32 budget; and
-
- 33 (vi) an explanation of the variance.
-
- 34
-
- 35 7. Newfoundland Power shall pay all costs and expenses of the Board incurred in
-
- 36 connection with the Application.

DATED at St. John's, Newfoundland and Labrador this 9th day of October, 2014.



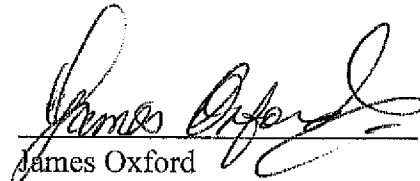
Andy Wells
Chair & Chief Executive Officer



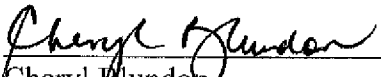
Darlene Whalen, P.Eng.
Vice-Chair



Ewanda Newman, LL.B.
Commissioner



James Oxford
Commissioner



Cheryl Blundon
Board Secretary

Newfoundland Power Inc.
2015 Capital Budget
Single-Year Projects Over \$50,000
(000s)

Project Description	<u>2015</u>
<u>Generation - Hydro</u>	
Facility Rehabilitation	\$1,586
Public Safety Around Dams	429
Tors Cove Plant Refurbishment	1,777
Seal Cove Plant Refurbishment	156
Total Generation - Hydro	<u>\$3,948</u>
 <u>Generation - Thermal</u>	
Facility Rehabilitation Thermal	\$216
Total Generation - Thermal	<u>\$216</u>
 <u>Substations</u>	
Substations Refurbishment and Modernization	\$9,961
Replacements Due to In-Service Failures	3,110
Additions Due to Load Growth	8,935
Substation Feeder Termination	472
Total Substations	<u>\$22,478</u>
 <u>Transmission</u>	
Transmission Line Rebuild	\$3,221
Total Transmission	<u>\$3,221</u>
 <u>Distribution</u>	
Extensions	\$12,314
Meters	3,146
Services	4,101
Street Lighting	2,469
Transformers	6,778
Reconstruction	3,964
Rebuild Distribution Lines	3,302
Relocate/Replace Distribution Lines for Third Parties	2,504
Trunk Feeders	991
Feeder Additions for Growth	1,684
Distribution Reliability Initiative	863

Distribution Feeder Automation	160
Allowance for Funds Used During Construction	197
Total Distribution	<u>\$42,473</u>
<u>General Property</u>	
Tools and Equipment	\$467
Additions to Real Property	385
Standby and Emergency Power – Carbonear Office	304
Total General Property	<u>\$1,156</u>
<u>Transportation</u>	
Purchase Vehicles and Aerial Devices	\$2,917
Total Transportation	<u>\$2,917</u>
<u>Telecommunications</u>	
Replace/Upgrade Communications Equipment	\$123
Total Telecommunications	<u>\$123</u>
<u>Information Systems</u>	
Application Enhancements	\$1,325
System Upgrades	930
Personal Computer Infrastructure	487
Shared Server Infrastructure	970
Network Infrastructure	328
Geographic Information System Improvements	433
Total Information Systems	<u>\$4,473</u>
<u>Unforeseen Allowance</u>	
Allowance for Unforeseen Items	\$750
Total Unforeseen Allowance	<u>\$750</u>
<u>General Expenses Capitalized</u>	
General Expenses Capitalized	\$4,100
Total General Expenses Capitalized	<u>\$4,100</u>
Total Single-Year Projects over \$50,000	<u><u>\$85,855</u></u>

**Newfoundland Power Inc.
2015 Capital Budget
Multi-Year Projects Over \$50,000**

Multi-Year Projects Commencing in 2015

Expenditure (000s)

<u>Project Description</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Pierre's Brook Plant Penstock and Surge Tank	\$750	\$13,530	
Transmission Line Rebuild	2,510	2,318	
Renovations to Company Buildings	2,068	724	
SCADA System Replacement	2,833	2,842	
Microsoft Enterprise Agreement	<u>195</u>	<u>195</u>	<u>195</u>
Total Multi-Year Projects Commencing 2015	<u>\$8,356</u>	<u>\$19,609</u>	<u>\$195</u>

Newfoundland Power Inc.
2015 Capital Budget
(000s)

Projects over \$50,000 to be completed in 2015	\$85,855
Multi-Year Projects over \$50,000 commencing in 2015	8,356
Approved 2015 Capital Budget	<u>\$94,211</u>

Newfoundland & Labrador

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