

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

AN ORDER OF THE BOARD

NO. P.U. 1(2017)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1 (the
3 "*EPCA*") and the *Public Utilities Act*, RSNL 1990,
4 Chapter P-47 (the "*Act*"), as amended, and regulations
5 thereunder; and
6

7 **IN THE MATTER OF** an application by
8 Newfoundland and Labrador Hydro for approval of
9 two exceptions to financial reporting requirements
10 relating to contributions in aid of construction and the
11 provision of betterment to non-customers, pursuant to
12 Section 58 of the Act.
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14

15 **WHEREAS** Hydro is a corporation continued and existing under the Hydro Corporation Act,
16 2007, is a public utility within the meaning of the Act, and is also subject to the provisions of
17 the Electrical Power Control Act, 1994; and
18

19 **WHEREAS** in Order No. P.U. 13(2012) the Board approved, with certain exceptions, the
20 adoption and use of International Financial Reporting Standards (IFRS) by Hydro for financial
21 reporting for regulatory purposes, effective January 1, 2012; and
22

23 **WHEREAS** on December 2, 2016 Hydro filed an Application (the "Application") for approval
24 to:

- 25 (i) continue its historic treatment of recording all contributions to assets, both from
26 customers and entities that are not customers, as Contributions in Aid of
27 Construction ("CIAC") for financial statement purposes, and to offset the
28 CIACs against the cost of the asset for computation of average rate base; and
29 (ii) not provide betterment to non-customers and the required contribution be
30 initially applied as an offset against the cost of capital assets to provide recovery
31 to Hydro of the unrecovered capital cost of the asset with the remainder applied
32 to reduce the net book value of the new asset; and
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34 **WHEREAS** the Application was circulated to Newfoundland Power Inc. ("Newfoundland
35 Power"), the Consumer Advocate, a group of Island Industrial customers: Corner Brook Pulp
36 and Paper Limited and North Atlantic Refining Limited (the "Industrial Customer Group"),
37 Vale Newfoundland and Labrador Limited, Praxair Canada Inc. and Teck Resources Limited;
38 and

1 **WHEREAS** Hydro advised that in 2016, Deloitte & Touche LLP, a professional services firm
2 engaged by Hydro, identified a difference between Canadian GAAP and IFRS relating to
3 CIACs that could have a material impact on test year revenue requirement and rate base; and
4

5 **WHEREAS** Hydro advised that under IFRS, if Hydro receives a contribution from an entity
6 that is not a customer, the contribution would not qualify as a CIAC but is treated as
7 contributed capital and requires Hydro to apply IFRS 10 which would result in an increase in
8 test year revenue requirement and average rate base; and
9

10 **WHEREAS** under Canadian GAAP, Hydro recorded all contributions for extensions and
11 system modifications from customers and non-customers as CIACs for financial statement
12 purposes which did not impact test year revenue requirement or average rate base; and
13

14 **WHEREAS** Hydro proposes to continue its historic treatment of recording all contributions to
15 assets, both from customers and entities that are not customers, as CIACs for financial
16 statement purposes; and
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18 **WHEREAS** Newfoundland Power advised that it had no comment on the historic treatment of
19 CIAC's for financial reporting purposes; and
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21 **WHEREAS** Hydro also proposes a deviation from the provision of betterment when providing
22 special facilities requiring the replacement of existing facilities for entities that are not
23 customers; and
24

25 **WHEREAS** Hydro states that the premature replacement of high cost power system assets can
26 result in Hydro incurring a material loss on disposal and that it would not be reasonable to
27 expect that customers or Hydro should pay for equipment that had to be replaced prematurely
28 based upon a request from an entity that is not a customer; and
29

30 **WHEREAS** Hydro states that customers would benefit from this proposal as the net book
31 value of Hydro's assets would not increase because of premature replacement of assets by
32 entities that are not customers; and
33

34 **WHEREAS** Hydro also states that approval of this proposal would avoid Hydro incurring
35 negative financial impacts associated with providing betterment to non-customers as a result of
36 providing special facilities that result in the premature retirement of Hydro assets; and
37

38 **WHEREAS** Newfoundland Power comments that it does provide credit for betterment when
39 calculating CIAC's for both customers and non-customers which recognizes the benefit to
40 customers of the extended life of utility assets resulting from the replacement of existing
41 facilities; and
42

43 **WHEREAS** Newfoundland Power comments that it is not evident from the Application why it
44 is reasonable that Hydro not provide a contributing entity a betterment credit; and
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46 **WHEREAS** in its reply Hydro clarifies that its proposal strictly applies to non-customer
47 entities which are not subject to the Board approved policy that have requested that Hydro
48 construct or alter Hydro-owned facilities and that Hydro is not proposing a deviation from the
49 CIAC policy for contributions from customers as approved by the Board; and

1 **WHEREAS** Hydro submits that this proposal is in the best interest of Newfoundland Power
2 and Hydro’s other customers as it will not negatively impact Hydro’s revenue requirements
3 from customers; and

4
5 **WHEREAS** the Industrial Customer Group advised that it has no comment on the Application;
6 and

7
8 **WHEREAS** the Board did not receive any other comments on the Application; and

9
10 **WHEREAS** the Board is satisfied that it is appropriate for Hydro to continue its historic
11 treatment of recording all contributions to assets from customers and non-customers as CIACs
12 for financial statement purposes and to offset the CIAC against the cost of the assets for
13 computation of rate base; and

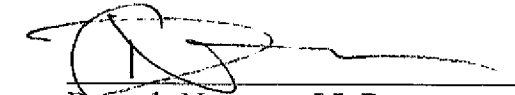
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15 **WHEREAS** the Board finds that Hydro has failed to demonstrate that it is appropriate to
16 approve the proposed deviation of usual practice in relation to providing betterment to non-
17 customers when providing special facilities requiring the replacement of existing facilities; and

18
19 **WHEREAS** the Board acknowledges that there may be occasions where it may be appropriate
20 for Hydro to not provide betterment to non-customers when providing special facilities
21 requiring the replacement of existing facilities and, in those instances, Hydro may wish to
22 apply to the Board for approval of a deviation from normal practice.

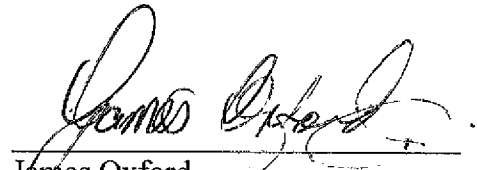
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24
25 **IT IS THEREFORE ORDERED THAT:**

- 26
27 1. Hydro’s proposal to continue its historic treatment of recording all contributions to assets,
28 both from customers and entities that are not customers, as CIACs for financial statement
29 purposes and to offset the CIAC against the cost of the asset for computation of average
30 rate base, is approved.
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32 2. Hydro’s proposal that betterment not be provided to non-customers is not approved.
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34 3. Hydro shall pay all the expenses of the Board arising from this Application.

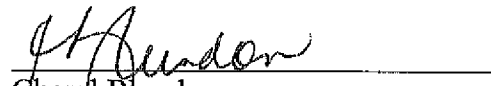
DATED at St. John's, Newfoundland and Labrador, this 16th day of January, 2017.



Dwanda Newman, LL.B.
Commissioner



James Oxford
Commissioner



Cheryl Blundon
Board Secretary