

August 7, 2015

Ms. G. Cheryl Blundon
Director of Corporate Services and Board Secretary
Board of Commissioners of Public Utilities
120 Torbay Road
P.O. Box 21040
St. John's, NL A1A 5B2

Dear Ms. Blundon:

Re: Newfoundland Power – 2016 Capital Budget Application

In relation to the above noted application please find enclosed the original and twelve copies of the Consumer Advocate's Submission.

A copy of the letter, together with enclosures, has been forwarded directly to the parties listed below.

If you have any questions regarding the filing, please contact the undersigned at your convenience.

Yours very truly,

O'DEA, EARLE


THOMAS JOHNSON Q.C.
TJ/cel
Encl.

cc: Newfoundland & Labrador Hydro
Attention: Geoffrey P. Young, Senior Legal Counsel

Newfoundland Power
Attention: Gerard Hayes, Senior Legal Counsel

1 **IN THE MATTER OF** the
2 *Public Utilities Act*, (the Act); and

3
4 **IN THE MATTER OF** capital
5 expenditures and rate base of
6 Newfoundland Power Inc.; and

7
8 **IN THE MATTER OF** an application by
9 Newfoundland Power Inc. for an order
10 pursuant to Sections 41 and 78 of the Act:

- 11 (a) approving a 2016 Capital Budget
12 of \$107,028,000;
13 (b) approving certain capital
14 expenditures related to multi-year
15 projects commencing in 2016; and
16 (c) fixing and determining a 2014 rate
17 base of \$964,930,000

18 To: Board of Commissioners of Public Utilities
19 Suite E210, Prince Charles Building
20 120 Torbay Road
21 P.O. Box 12040
22 St. John's, NL A1A 5B2
23 **Attention: Ms. G. Cheryl Blundon**
24 Direct of Corporate Services & Board Secretary
25

26
27 **SUBMISSION OF THE CONSUMER ADVOCATE**
28 **NEWFOUNDLAND POWER'S 2016 CAPITAL BUDGET**
29 **APPLICATION**

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Introduction

A public utility in Newfoundland and Labrador is required under section 41 of the Public Utilities Act, RSNL, c. P-47 (the "Act") to submit an annual capital budget of proposed improvements or additions to its property for approval by the Board of Commissioners of Public Utilities. Further, section 78 of the Act vests authority in the Board to fix and determine the rate base for the service provided or supplied to the public by the utility and also gives the Board the power to revise the rate base.

In a similar vein, section 3(b) of the Electrical Power Control Act, 1994 SNL1994 c. E-5.1 requires that utilities manage and operate facilities in a manner which results in power being delivered to consumers in the province at the "lowest possible cost consistent with reliable service". This legislative obligation places the onus upon the utility to establish before the Board that the expenditures proposed are both (a) necessary in the year in which they are proposed and; (b) represent the lowest cost alternative for the provision of electricity service in the province.

The Consumer Advocate has expressed concerns over the increasing amounts sought by utilities for capital projects. These amounts need to be financed as either debt or equity and it is the consumer who ultimately will pay the interest on the debt and the return on equity as well as the costs of depreciation on the acquired assets. The Board, in Order No. P.U. 26 (2011), stated that it shared the Consumer Advocate's concern about the increasing levels of planned capital for both Newfoundland Power Inc. and Hydro.

The Consumer Advocate notes that the amounts sought as part of the capital budget continues to increase:

- 2012 Capital Budget Application: \$77,293,000.00;
- 2013 Capital Budget Application: \$80,788,000.00;
- 2014 Capital Budget Application: \$84,462,000.00;
- 2015 Capital Budget Application: \$94,211,000.00;
- 2016 Capital Budget Application: \$107,028,000.00.

1 The Consumer Advocate notes that Newfoundland Power does not expect its annual
2 capital expenditures to decrease in the coming years. In fact, the Company's forecast
3 annual capital expenditures for the next 5 years are expected to average approximately
4 \$108,000,000.00 (page 1, 2016 Capital Plan).

5
6 The Consumer Advocate submits that the level of spending reinforces the imperative
7 that approval should only be given to those projects or improvements demonstrated to
8 be necessary for Newfoundland Power to provide service at the lowest possible cost
9 while still providing reliable service. If savings can be achieved, these should be
10 pursued fully. With this in mind, the Consumer Advocate provides the following
11 submissions as to the vehicle replacement project, an ongoing annual project.

12
13 **A: Vehicle Replacement Criteria (Tab 5.1)**

14 Vehicle replacements for 2016 are projected to cost \$3,258,000.00. Newfoundland
15 Power states that it needs to replace 8 heavy fleet vehicles that meet the age, mileage
16 and condition necessary for replacement. Additionally, 22 passenger vehicles are stated
17 to require replacement (Section B, 2016 Capital Projects, page 69 of 98).

18
19 Projected costs are also expected to increase. 2017 is forecasted to cost approximately
20 \$3,330,000.00, with 2018 through 2020 forecast to cost approximately \$3,956,000.00
21 each year (Section B, 2016 Capital Projects, page 70 of 98). The Company indicates
22 that it plans to increase its heavy fleet from 71 to 80 units (CA-NP-022).

23
24 The Consumer Advocate submits that with projects such as vehicle replacement, some
25 comparisons as to replacement practices should be made to other Canadian utilities. If
26 other utilities are able to save funds by using vehicles longer, these avenues should be
27 pursued if at all possible by Newfoundland Power. As stated by the Board in Order P.U.
28 40 (2014), at page 6, there is merit to reviewing the replacement criteria of other
29 Canadian utilities:

30
31 **The Board sees merit in requiring information in relation to the vehicle**
32 **replacement criteria of other Canadian utilities. In its next capital budget**
33 **application where expenditures are proposed in relation to vehicle replacements,**
34 **Newfoundland Power will be expected to provide information on the vehicle**
35 **replacement policies for other Canadian utilities.**
36

1 Newfoundland Power canvassed 12 other utilities, seeking information regarding the
2 replacement criteria for vehicles and equipment used by each utility (CA-NP-008).
3 Newfoundland Power has confirmed that the information provided by the utilities are the
4 years and kilometers at which vehicles are initially assessed for replacement (CA-NP-
5 008; CA-NP-009).

6
7 A comparison of the survey results is provided at Appendix A, Tab 5.1 of the Capital
8 Budget Application. This shows that for passenger vehicles, Newfoundland Power's
9 criteria is consistent with only one other utility (Utility 9, Atlantic). In comparison with all
10 other surveyed utilities, the Company assesses its passenger vehicles in terms of
11 kilometers much earlier. For light duty vehicles, Newfoundland Power's kilometer
12 assessment criteria is lower than 3 of the other Atlantic region utilities, while for heavy
13 duty vehicles Newfoundland Power is lower in kilometer assessments than 2 other
14 Atlantic region utilities.

15
16 Newfoundland Power, in Charts 3 (page 4) and 4 (page 5) of Tab 5.1 of the Capital
17 Budget Application, outlines that while its vehicles may be assessed according to certain
18 years and kilometers, actual retirements of the vehicles occur, on average, later in years
19 (Chart 3) and with more kilometers (Chart 4) than assessment criteria. The vehicle
20 retirement data provided by Newfoundland Power (CA-NP-002) demonstrates that many
21 of Newfoundland Power's passenger vehicles have been retired prior to even reaching
22 the threshold kilometers for assessment used by some of the utilities surveyed, including
23 utilities 10, 11 and 12 which are all operating in the Atlantic region (see throughout the
24 reply to CA-NP-002 but in particular units 57 forward).

25
26 The Consumer Advocate submits that there is merit to Newfoundland Power's
27 assessment criteria moving to be more in line with the other utilities canvassed.
28 Newfoundland Power has indicated that there are concerns with excessive wear and
29 tear on vehicles (CA-NP-003):

30
31 **Discussions with manufacturer representatives indicate that climate and road**
32 **conditions contribute to additional wear and tear on vehicles in Atlantic Canada.**
33 **This is consistent with Newfoundland Power's experience that vehicles do not get**
34 **replaced due to deterioration associated with excessive corrosion. However, over**
35 **time, corrosion resulting from the exposure to salty environmental conditions**

1 **contributes to maintenance costs associated with replacing components such as**
2 **the braking system on vehicles.**
3

4 Despite these concerns, 3 of the other Atlantic utilities still consider 200,000 kilometers
5 appropriate as the kilometer threshold to assess passenger vehicles for replacement,
6 compared to Newfoundland Power's 150,000 kilometer threshold. Three of the Atlantic
7 utilities consider 300,000 kilometers appropriate as the threshold to assess light duty
8 vehicles, compared to Newfoundland Power's criteria of 250,000, and 2 of the Atlantic
9 utilities consider 300,000 kilometers as the threshold for heavy duty vehicles, compared
10 to Newfoundland Powers' 250,000 kilometers. It is worth noting that in light duty
11 vehicles only is Newfoundland Powers' age criteria higher than all the Atlantic region
12 utilities. With all of the Atlantic utilities facing similar environmental concerns outlined by
13 the Company, there is no sound basis for there to be a 50,000 kilometer difference in
14 each of the vehicle classes.

15
16 Newfoundland Power should be ordered to review its vehicle replacement strategy and
17 to align itself with the rest of Canada, and in particular Atlantic utilities in terms of its
18 kilometer assessment criteria.

19
20 The Consumer Advocate also submits that it would be instructive to have data from each
21 of the utilities surveyed, if available, as to the age and kilometers of vehicles when
22 actually replaced (in the form presented by Newfoundland Power in CA-NP-002,
23 Attachment A) to allow a comparison with Newfoundland Power's criteria of assessment
24 vs. status at replacement date as set out in Charts 3 and 4 found at Tab 5.1 of the
25 Capital Budget Application. A comparison of replacement age/kilometers would help to
26 evaluate the Company's retirement policies and determine whether it is in line with other
27 utilities. The Consumer Advocate submits that Newfoundland Power should be required
28 to survey and provide this information in its next Capital Budget Application, and
29 Newfoundland Power should also be required to provide on an ongoing basis the age
30 and kilometers of the vehicles it proposes to replace in each Capital Budget Application.

31
32 Lastly, in light of the response to footnote 2 of CA-NP-002, the Consumer Advocate
33 submits that the Company should be ordered to record the kilometers of all vehicles it
34 replaces on a go forward basis.
35

RESPECTFULLY SUBMITTED AND DATED at St. John's, in the Province of Newfoundland and Labrador, this 7th day of August, 2015.



THE CONSUMER ADVOCATE

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