

Office of the Consumer Advocate

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November 15, 2021

Board of Commissions of Public Utilities
120 Torbay Road, P.O. Box 2140
St. John's, NL A1A 5B2

**Attention: G. Cheryl Blundon, Director of
Corporate Services / Board Secretary**

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro - 2022 Capital Budget Application

On August 2, 2021 Newfoundland and Labrador Hydro ("Hydro") submitted to the Public Utilities Board (the "Board") its 2022 Capital Budget Application. A revised version of the Application was submitted to the Board on September 17, 2021. In its Application Hydro is seeking Board approval for capital expenditures totaling \$84,714,000. It is understood that the total capital spend in 2022 that will be recovered in rates is \$102.9 million. The difference between the figures relates primarily to the long-term supply plan for southern Labrador – Phase 1 (\$15.8 million – see PUB-NLH-005) which is being addressed under a separate supplemental capital budget application.

The Board has directed the parties to file submissions on Hydro's 2021 Capital Budget Application by November 12, 2021. The Consumer Advocate requested and was granted permission to file this submission on November 15, 2021. This submission documents the Consumer Advocate's position on Hydro's 2022 Capital Budget Application. Note that the supplemental capital budget application relating to Hydro's long-term supply plan for southern Labrador is not addressed by the Consumer Advocate in this submission.

COMMENTS OF THE CONSUMER ADVOCATE

Midgard Consulting Inc. was retained by the Board to review the current Capital Budget Guidelines and filed its report on August 24, 2020. As stated on page 3 of the report:

"Midgard Consulting Incorporated ("Midgard") has been retained by the Newfoundland and Labrador Board of Commissioners of Public Utilities ("NLPUB" or "the Board") as an expert consultant to perform a review of the NLPUB's existing Capital Budget Application Guidelines

(“Guidelines”). The objective of this work is to provide recommended changes to the existing Guidelines to help improve the overall efficiency and effectiveness of the annual Capital Budget Application processes required under legislation.”

As stated in previous submissions relating to Hydro and Newfoundland Power 2021 Capital Budget Applications, the Consumer Advocate supports all Midgard recommendations, believing these would improve the capital budget process. In particular, the Midgard recommendations would reduce the asymmetry of information between the utilities and the parties. However, the Board has yet to make a decision on Midgard’s recommended revisions to the Capital Budget Guidelines, and the asymmetry of information continues in the 2022 Capital Budget Applications of Hydro and Newfoundland Power. For example, Hydro still does not have the ability to quantify risks and benefits of its proposed capital projects (CA-NLH-027). This means that Hydro has not met the burden of proof requirement set out in the Capital Budget Guidelines, and places the Consumer Advocate and other parties at a significant disadvantage when reviewing the merits of the projects proposed in the Application.

However, Hydro has a plan for reviewing its asset management practices that would presumably enable the quantification of project risks and benefits in future capital budget submissions. Hydro states (CA-NLH-015) that it is *“conducting a readiness assessment to determine appropriate steps to take to further mature its asset management system”*. Further, the Consumer Advocate believes that unlike Newfoundland Power, Hydro has made a concerted effort to manage its spending in recognition of the economic climate in the Province and the rate impacts brought on by the Muskrat Falls Project (CA-NLH-013) and rate mitigation efforts generally.¹

Consistent with recommendations made by Midgard, in the Application Hydro has prioritized its projects (Application Volume 1, Table H-1, page H-1), included *“a segmentation of its capital projects according to the categories identified by Midgard”* (reference Application, Volume 1, 2022 Capital Budget Overview, page 7), and engaged *“with stakeholders and customers to inform its capital investment considerations”* (Reference Application Volume 1, 2022 Capital Budget Overview, page 1). Further, in spite of the significant supply challenges arising due to the uncertainty of the Muskrat Falls Project, Hydro has held its 2022 capital budget expenditures at levels less than those approved by the Board in recent capital budget applications. Hydro is seeking approval of \$84.7 million in its 2022 Capital Budget Application which compares to capital budget amounts approved by the Board for the 2021 and 2020 calendar years of \$107.5 million and \$107.6 million, respectively (CA-NLH-001).

In summary, based on the foregoing, the Consumer Advocate does not take issue with this 2022 Capital Budget Application.

¹ In CA-NP-008 from its 2022 Capital Budget Application Newfoundland Power states *“There is no documentation to provide from senior management relating to budget control in light of rate pressures brought on by the Muskrat Falls Project”*. Newfoundland Power goes on to say that it is *“required to provide reliable, least cost service to its customers under all economic conditions.”* Clearly, the economic welfare of its customers is not a consideration in Newfoundland Power decision-making relating to cost control.

Please contact the undersigned if you have any questions on this submission.

Yours truly,


Dennis Browne, Q.C.
Consumer Advocate

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cc

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