

IN THE MATTER OF THE  
**2010 CAPITAL BUDGET APPLICATION**

FILED BY  
**NEWFOUNDLAND POWER INC.**

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**DECISION AND ORDER  
OF THE BOARD**

**ORDER No. P. U. 41(2009)**

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**BEFORE:**

**Andy Wells  
Chair and Chief Executive Officer**

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

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

**James Oxford  
Commissioner**

**P. U. 41(2009)**

**IN THE MATTER OF** the *Public Utilities Act*, RSNL 1990, c. P-47 (the “*Act*”);

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 2010 Capital Budget of \$64,679,000; and
- (b) fixing and determining its average rate base for 2008 in the amount of \$820,876,000.

**BEFORE:**

Andy Wells  
Chair and Chief Executive Officer

Darlene Whalen, P. Eng  
Vice-Chair

Dwanda Newman, LL.B  
Commissioner

James Oxford  
Commissioner

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1   **I       BACKGROUND**

2  
3   **1.       The Application**

4  
5   Newfoundland Power filed its 2010 Capital Budget Application (the "Application") with the  
6   Board of Commissioners of Public Utilities (the "Board") on June 19, 2009. In the Application  
7   Newfoundland Power requests that the Board make an Order:

- 8  
9       (i)     approving its 2010 Capital Budget of \$64,679,000; and  
10      (ii)    fixing and determining its average rate base for 2008 in the amount of  
11               \$820,876,000.

12  
13   In accordance with the legislation, regulations and Board guidelines the Application includes a  
14   detailed explanation of each proposed expenditure, setting out a description, justification, costing  
15   methodology and future commitments, if applicable. Additional studies and reports, including  
16   detailed engineering reports, are provided in relation to a number of projects.

17  
18  
19   **2.       Board Authority**

20  
21   Section 41 of the *Public Utilities Act*, RSNL 1990, c. P-47 (the "*Act*") requires a public utility to  
22   submit an annual capital budget of proposed improvements or additions to its property for  
23   approval of the Board no later than December 15<sup>th</sup> in each year for the next calendar year. In  
24   addition, the utility is also required to include an estimate of contributions toward the cost of  
25   improvements or additions to its property, which the utility intends to demand from its  
26   customers.

27  
28   Subsection 41(3) prohibits a utility from proceeding with the construction, purchase or lease of  
29   improvements or additions to its property without the prior approval of the Board where (a) the  
30   cost of the construction or purchase is in excess of \$50,000, or (b) the cost of the lease is in  
31   excess of \$5,000 in a year of the lease.

32  
33   Section 78 gives the Board the authority to fix and determine the rate base for the service  
34   provided or supplied to the public by the utility and also gives the Board the power to revise the  
35   rate base. Section 78 also provides the Board with guidance on the elements that may be  
36   included in the rate base.

37  
38  
39   **3.       Application Process**

40  
41   Notice of the Application, including an invitation to participate, was published on July 4, 2009 in  
42   newspapers in the Province. Details of the Application and supporting documentation were  
43   posted on the Board's website.

44  
45   Interventions were received from the Consumer Advocate, Mr. Thomas Johnson, and from  
46   Newfoundland and Labrador Hydro. A total of 71 Requests for Information were issued to

1 Newfoundland Power by the Consumer Advocate and the Board. No intervenor evidence was  
2 filed and no intervenor requested a technical conference or formal hearing of the Application.

3  
4 Grant Thornton, the Board's financial consultants, were retained to review the calculations of the  
5 2008 actual average rate base. Grant Thornton filed a report on September 17, 2009 and copies  
6 were provided to Newfoundland Power and the intervenors.

7  
8 The Consumer Advocate filed a written submission on September 17, 2009 and Newfoundland  
9 Power filed its written submission on September 30, 2009. Hydro did not file any requests for  
10 information or written submissions.

## II PROPOSED 2010 CAPITAL BUDGET

### 1. Overview

Newfoundland Power's proposed total capital budget for 2010 is \$64,679,000. The proposed expenditures by asset class are as follows:

| <u>Asset Class</u>           | <u>Budget (\$000s)</u>  |
|------------------------------|-------------------------|
| Generation-Hydro             | \$ 5,279                |
| Generation-Thermal           | 150                     |
| Substations                  | 10,218                  |
| Transmission                 | 5,915                   |
| Distribution                 | 31,965                  |
| General Property             | 1,381                   |
| Transportation               | 2,352                   |
| Telecommunications           | 379                     |
| Information Systems          | 3,490                   |
| Unforeseen Allowance         | 750                     |
| General Expenses Capitalized | 2,800                   |
| <b>Total</b>                 | <b><u>\$ 64,679</u></b> |

### 2. Evidence and Submissions

Newfoundland Power has provided detailed information supporting the overall capital budget for 2010 as well as the individual proposed expenditures. The supporting information for each of the projects is comprehensive and consistent with the level of information filed in recent capital budget applications and in accordance with the Board's Capital Budget Guidelines.

The proposed 2010 capital budget is 5% larger than last year's capital budget of \$61.6 million approved by the Board in Order No. P. U. 27(2008). The larger overall budget for 2010 is primarily attributable to the proposed expenditures in relation to three asset classes: substations, transmission and distribution. The proposed expenditures in relation to substations are \$3 million or over 40% higher than was proposed in the 2009 capital budget. The proposed expenditures in relation to transmission in 2010 are \$1.4 million or over 30% higher than proposed for 2009. The proposed expenditures in relation to distribution in 2010 are \$1.7 million or over 5% higher than proposed distribution for 2009. These increases are offset somewhat by a significant decrease in the proposed 2010 generation expenditures which were higher in 2009 because of the project undertaken in 2009 to refurbish the Rocky Pond plant. No similar generation project is planned for 2010.

The 2010 Capital Plan filed with the Application states that the material increase in the level of expenditures proposed in relation to substations is largely attributable to the requirement for additional system capacity to serve increased customer load, as well as the effects of inflation on utility construction costs. Newfoundland Power notes that it forecasts a number of significant substation projects over the next several years with at least one large power transformer purchase every year through to 2014. In 2010 Newfoundland Power proposes the replacement of the transformer at Deer Lake, which is to be relocated to the Mobile substation. In relation to the proposed transmission expenditures, the 2010 Capital Plan states that the expenditures for the years 2010 to 2014 are expected to be relatively stable, though somewhat larger than expenditures for the years 2005 to 2009, primarily due to inflation and the need to rebuild aging transmission lines. The 2010 Capital Plan states that distribution expenditures are relatively stable having been slightly lower last year as compared to the 2005 - 2009 average of \$32.6 million.

The Consumer Advocate does not raise any issues in his submission as to the proposed overall level of capital expenditure or the level of expenditure for a particular class of assets. Newfoundland Power notes in its submission that there was no evidence filed which contradicts the engineering judgements in the Application or offers other more reasonable alternatives. The submission says:

*"Newfoundland Power submits that the 2010 Capital Budget contained in the Application represents the capital expenditures required to meet its statutory obligations, including the delivery of electrical power at the lowest possible cost consistent with reliable service."*

In relation to the particular projects the Consumer Advocate raises concerns in relation to two projects; (1) Vehicle Mobile Computing Infrastructure, and (2) Purchase Vehicles and Aerial Devices.

#### Vehicle Mobile Computing Infrastructure

Newfoundland Power proposes an expenditure of \$272,000 for the installation of mobile computing infrastructure in company vehicles. The proposed project is a pooled amount for the installation of 35 ruggedized laptop computers, justified on the basis of improvements to customer service and operational effectiveness as well as ensuring compliance and ongoing adherence with safety and environmental standards and processes. Newfoundland Power states in CA-NP-30 that each unit is projected to cost \$4,450 and is expected to be in service for five years. Newfoundland Power states that over three years it plans to install a total of 80 ruggedized laptops with 25 to be installed in 2009 and 35 in 2010. Newfoundland Power advises that the 2009 expenditures have not yet been evaluated as the units are not expected to be installed until the fall of 2009.

The Consumer Advocate notes in his submission that Newfoundland Power has not produced a report outlining the plan, the timeline, the anticipated benefits and costs of these expenditures and argues that the information provided falls short of the proper level of justification. The Consumer Advocate submits that the expenditure requires "a thorough cost analysis and

demonstration that the expenditures are least cost when compared to alternative means of achieving the regulatory objectives of "safety and environmental standards and processes...."

Newfoundland Power notes in its submission that it has adopted a measured approach for this project having extended the completion date from 2010 to 2011. Newfoundland Power states that these expenditures have further potential to improve efficiency in customer operations:

*"Ensuring that employees have access to the most current policies and procedures related to safety and the environment can be done in a more cost-effective manner using mobile computers in Company vehicles when compared with creating, updating and distributing over 120 paper copies of this documentation. A financial analysis of the costs and benefits associated with making the Company's safety and environmental policies and procedures available to employees with mobile computers in their vehicles indicated a positive net present value of \$59,087 over 5 years."*

The Board agrees with the Consumer Advocate that the Application and answers to the requests for information do not provide a comprehensive and detailed explanation of the benefits associated with the proposed vehicle mobile computing infrastructure. However, the Board is satisfied that this expenditure should be approved based on all the available information. While insufficient time has elapsed to have evaluated the benefits in relation to the approved 2009 expenditures, the Board notes that Newfoundland Power has extended the overall project from two years to three years resulting in significantly lower expenditures for 2010. The Board will approve this expenditure for 2010 on the basis of the opportunity for improvements in safety and efficiency, which the Board expects will be documented as part of Newfoundland Power's proposals in relation to expenditures for 2011.

#### Purchase Vehicles and Aerial Devices

Newfoundland Power proposes an expenditure of \$2,352,000 for the replacement of heavy fleet, passenger and off-road vehicles. The proposed expenditure is a pooled amount for the replacement of twenty-nine vehicles which were determined by Newfoundland Power to be at the end of their useful service lives. Newfoundland Power states that each of these vehicles has reached the established replacement threshold and has been evaluated based on a number of criteria including overall condition, maintenance history and immediate repair requirements.

The replacement threshold set by Newfoundland Power for heavy fleet vehicles is ten years or 250,000 kilometres, and for passenger vehicles five years or 150,000 kilometres. In PUB-NP-17 Newfoundland Power details the evaluations that are carried out of individual vehicles. Newfoundland Power states that individual evaluation of each vehicle recognizes the variety of operating conditions and patterns of use.

The Consumer Advocate notes in his submission that this is a significant capital budget item and that the determination that a vehicle has reached the end of its useful life is a critical determination. The Consumer Advocate states that it is not clear how Newfoundland Power determined that the vehicles should be replaced as the least cost option. The Consumer

1 Advocate states that a template listing the factors that are to be considered in making the end of  
2 useful life determination may help to bring a further measure of objectiveness. The Consumer  
3 Advocate argues that this would be of particular value in the case of heavy fleet vehicles and also  
4 where vehicles are to be retired well before the mileage threshold has been reached.  
5

6 Newfoundland Power's submission states that its approach to vehicle replacement is consistent  
7 with current Canadian utility practice and enables least cost replacement of vehicles.  
8 Newfoundland Power notes that the useful life of vehicles is often extended beyond the age or  
9 level of usage threshold with 20 vehicles that had reached the threshold levels not being replaced  
10 in 2009 and 31 vehicles in 2010. Newfoundland Power states that there is no evidence on the  
11 record that the use of a template in the evaluation of whether a vehicle has reached the end of its  
12 useful life would enhance the decision-making process.  
13

14 The Board notes that the Consumer Advocate did not provide evidence that a template is used in  
15 other jurisdictions and did not propose a particular template for consideration by the Board. The  
16 Board also notes that there is no evidence that the existing process has led to higher or  
17 unnecessary costs. The Board notes that, according to the evidence, in recent years a substantial  
18 number of vehicles that have reached the threshold age or usage levels have not been replaced.  
19 The Board is satisfied that the existing evaluation process for vehicle replacement is reasonable.  
20

### 21 **3. Board Findings**

22

23 The Board has reviewed the extensive documentation and evidence on the record and finds that  
24 the proposed capital purchases and construction projects in excess of \$50,000 are prudent and  
25 reasonable and should be approved. The Board also finds that the proposed total capital budget  
26 for 2010 is prudent and reasonable and will, therefore, approve Newfoundland Power's 2010  
27 Capital Budget in the amount of \$64,679,000.

**III. 2008 AVERAGE RATE BASE**

The following table shows the calculation of the actual average rate base for 2008 compared with 2007:

|                                            | (\$000s)       |                  |
|--------------------------------------------|----------------|------------------|
|                                            | <u>2008</u>    | <u>2007</u>      |
| <b>Net Plant Investment</b>                |                |                  |
| Plant Investment                           | 1,286,039      | \$1,239,186      |
| Accumulated Amortization                   | (539,654)      | (516,478)        |
| Contributions in Aid of Construction       | (25,884)       | (24,217)         |
|                                            | <u>720,501</u> | <u>698,491</u>   |
| <b>Additions to Rate Base</b>              |                |                  |
| Deferred Charges                           | 100,723        | 96,850           |
| Weather Normalization Reserve              | 5,910          | 10,516           |
| Deferred Energy Replacement Cost           | 766            | 1,147            |
| Cost Recovery Deferral- Depreciation       | 7,724          | 11,586           |
| Customer Finance Programs                  | 1,776          | 1,811            |
|                                            | <u>116,899</u> | <u>121,910</u>   |
| <b>Deductions from Rate Base</b>           |                |                  |
| 2005 Unbilled Revenue                      | 9,236          | 16,446           |
| Accrued Pension Liabilities                | 3,142          | 2,943            |
| Municipal Tax Liability                    | 2,727          | 4,089            |
| Future Income Taxes                        | 1,184          | -                |
| Purchased Power Unit Cost Variance Reserve | 895            | 1,650            |
| Demand Management Incentive Account        | 426            | -                |
| Customer Security Deposits                 | 785            | 612              |
|                                            | <u>18,395</u>  | <u>25,740</u>    |
| <b>Year End Rate Base</b>                  | 819,005        | 794,661          |
| <b>Average Rate Base Before Allowances</b> | 806,833        | 777,494          |
| <b>Rate Base Allowances</b>                |                |                  |
| Materials and Supplies Allowance           | 4,327          | 4,393            |
| Cash Working Capital Allowance             | 9,716          | 6,669            |
| <b>Average Rate Base at Year End</b>       | <u>820,876</u> | <u>\$788,556</u> |

Source: Newfoundland Power 2010 Capital Budget Application, Schedule D

1 The actual average rate base for 2008 has increased by \$32,320,000 from 2007.

2  
3 Grant Thornton reviewed the calculation of the actual average rate base for 2008 and provided an  
4 opinion that the calculation is accurate and in accordance with previous Board Orders. The  
5 Consumer Advocate does not raise any issues as to the approval of the proposed 2008 average  
6 rate base. The Board will approve all of the components of and Newfoundland Power's average  
7 rate base for 2008 in the amount of \$820,876,000.

8  
9  
10 **IV ORDER**

11  
12 **IT IS THEREFORE ORDERED THAT:**

- 13  
14 1. Newfoundland Power's capital purchases and construction projects in excess of  
15 \$50,000, as set out in Schedule A to this Order, are approved.  
16  
17 2. The 2010 Capital Budget for improvements and additions to Newfoundland Power's  
18 property in an amount of \$64,679,000 is approved.  
19  
20 3. The average rate base for the year ending December 31, 2008 is hereby fixed and  
21 determined at \$820,876,000.  
22  
23 4. Unless otherwise directed by the Board, Newfoundland Power shall file an annual  
24 report to the Board on its 2010 capital expenditures by March 1, 2011.  
25  
26 5. Unless otherwise directed by the Board, Newfoundland Power shall provide, in  
27 conjunction with the 2011 Capital Budget Application, a status report on the 2010  
28 capital budget expenditures showing for each project:  
29  
30 (i) the approved budget for 2010;  
31 (ii) the expenditures prior to 2010;  
32 (iii) the 2010 expenditures to the date of the Application;  
33 (iv) the remaining projected expenditures for 2010;  
34 (v) the variance between the projected total expenditures and the approved  
35 budget; and  
36 (vi) an explanation of the variance.  
37  
38 6. Newfoundland Power shall pay all costs and expenses of the Board incurred in  
39 connection with the Application.

Dated at St. John's, Newfoundland and Labrador this day 4<sup>th</sup> of November 2009.



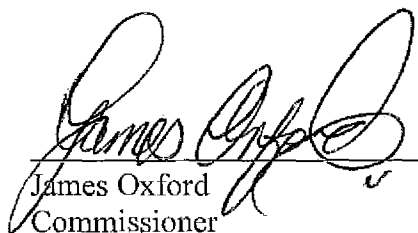
Andy Wells  
Chair and Chief Executive Officer



Darlene Whalen, P.Eng.  
Vice-Chair



Dwanda Newman, LL.B.  
Commissioner



James Oxford  
Commissioner



G. Cheryl Blundon  
Board Secretary

**2010 CAPITAL BUDGET SUMMARY**

| <b><u>Asset Class</u></b>        | <b><u>Budget (000s)</u></b> |
|----------------------------------|-----------------------------|
| 1. Generation - Hydro            | \$ 5,279                    |
| 2. Generation - Thermal          | 150                         |
| 3. Substations                   | 10,218                      |
| 4. Transmission                  | 5,915                       |
| 5. Distribution                  | 31,965                      |
| 6. General Property              | 1,381                       |
| 7. Transportation                | 2,352                       |
| 8. Telecommunications            | 379                         |
| 9. Information Systems           | 3,490                       |
| 10. Unforeseen Allowance         | 750                         |
| 11. General Expenses Capitalized | 2,800                       |
| <b>Total</b>                     | <b><u>\$ 64,679</u></b>     |

**2010 CAPITAL PROJECTS (BY ASSET CLASS)**

| <b><u>Capital Projects</u></b>                     | <b><u>Budget (000s)</u></b> | <b><u>Description<sup>1</sup></u></b> |
|----------------------------------------------------|-----------------------------|---------------------------------------|
| <b>1. Generation – Hydro</b>                       |                             |                                       |
| Facility Rehabilitation                            | \$1,340                     | 2                                     |
| Lookout Brook Hydro Plant Refurbishment            | 2,155                       | 4                                     |
| Petty Harbour Surge Tank and Unit No. 1 Main Valve | 632                         | 6                                     |
| Raise Sandy Lake Spillway to Increase Production   | 612                         | 8                                     |
| Seal Cove Hydro Plant Runner Replacement           | 540                         | 10                                    |
| <b><i>Total Generation – Hydro</i></b>             | <b>\$ 5,279</b>             |                                       |
| <b>2. Generation – Thermal</b>                     |                             |                                       |
| Facility Rehabilitation Thermal                    | \$ 150                      | 13                                    |
| <b><i>Total Generation – Thermal</i></b>           | <b>\$ 150</b>               |                                       |
| <b>3. Substations</b>                              |                             |                                       |
| Substations Refurbishment and Modernization        | \$ 4,043                    | 16                                    |
| Replacements Due to In-Service Failures            | 2,052                       | 18                                    |
| Additions Due to Load Growth 3,650 20              |                             |                                       |
| Convert 23L to 66 KV                               | 286                         | 22                                    |
| Lookout Brook Substation Upgrades                  | 187                         | 24                                    |
| <b><i>Total Substations</i></b>                    | <b>\$ 10,218</b>            |                                       |
| <b>4. Transmission</b>                             |                             |                                       |
| Transmission Line Rebuild                          | \$ 5,915                    | 27                                    |
| <b><i>Total Transmission</i></b>                   | <b>\$ 5,915</b>             |                                       |

<sup>1</sup> Project descriptions can be found in Schedule B of the Application at the page indicated.

**2010 CAPITAL PROJECTS (BY ASSET CLASS)**

| <b><u>Capital Projects</u></b>                        | <b><u>Budget (000s)</u></b> | <b><u>Description<sup>2</sup></u></b> |
|-------------------------------------------------------|-----------------------------|---------------------------------------|
| <b>5. Distribution</b>                                |                             |                                       |
| Extensions                                            | \$ 8,856                    | 30                                    |
| Meters                                                | 1,239                       | 32                                    |
| Services                                              | 2,447                       | 35                                    |
| Street Lighting                                       | 1,783                       | 38                                    |
| Replace Mercury Vapour Street Lights                  | 681                         | 41                                    |
| Transformers                                          | 7,668                       | 43                                    |
| Reconstruction                                        | 3,359                       | 45                                    |
| Rebuild Distribution Lines                            | 3,632                       | 47                                    |
| Relocate/Replace Distribution Lines for Third Parties | 685                         | 50                                    |
| Distribution Reliability Initiative                   | 447                         | 52                                    |
| St. John's Underground Distribution                   | 550                         | 55                                    |
| Feeder Additions for Growth                           | 465                         | 57                                    |
| Allowance for Funds Used During Construction          | 153                         | 59                                    |
| <b><i>Total Distribution</i></b>                      | <b>\$ 31,965</b>            |                                       |
| <b>6. General Property</b>                            |                             |                                       |
| Tools and Equipment                                   | \$ 389                      | 62                                    |
| Additions to Real Property                            | 225                         | 65                                    |
| Kenmount Road Building Roof and HVAC                  | 542                         | 67                                    |
| System Control Centre UPS                             | 225                         | 69                                    |
| <b><i>Total General Property</i></b>                  | <b>\$ 1,381</b>             |                                       |
| <b>7. Transportation</b>                              |                             |                                       |
| Purchase Vehicles and Aerial Devices                  | \$ 2,352                    | 72                                    |
| <b><i>Total Transportation</i></b>                    | <b>\$ 2,352</b>             |                                       |

<sup>2</sup> Project descriptions can be found in Schedule B of the Application at the page indicated.

**2010 CAPITAL PROJECTS (BY ASSET CLASS)**

| <b><u>Capital Projects</u></b>                   | <b><u>Budget (000s)</u></b> | <b><u>Description<sup>3</sup></u></b> |
|--------------------------------------------------|-----------------------------|---------------------------------------|
| <b>8. Telecommunications</b>                     |                             |                                       |
| Replace/Upgrade Communications Equipment         | \$ 135                      | 75                                    |
| Fibre Optic Circuit Replacement                  | 244                         | 77                                    |
| <b><i>Total Telecommunications</i></b>           | <b>\$ 379</b>               |                                       |
| <b>9. Information Systems</b>                    |                             |                                       |
| Application Enhancements                         | \$ 937                      | 80                                    |
| System Upgrades <sup>4</sup>                     | 1,038                       | 82                                    |
| Personal Computer Infrastructure                 | 430                         | 84                                    |
| Shared Server Infrastructure                     | 660                         | 87                                    |
| Network Infrastructure                           | 153                         | 89                                    |
| Vehicle Mobile Computing Infrastructure          | 272                         | 91                                    |
| <b><i>Total Information Systems</i></b>          | <b>\$ 3,490</b>             |                                       |
| <b>10. Unforeseen Allowance</b>                  |                             |                                       |
| Allowance for Unforeseen Items                   | \$ 750                      | 94                                    |
| <b><i>Total Unforeseen Allowance</i></b>         | <b>\$ 750</b>               |                                       |
| <b>11. General Expenses Capitalized</b>          |                             |                                       |
| General Expenses Capitalized                     | \$ 2,800                    | 96                                    |
| <b><i>Total General Expenses Capitalized</i></b> | <b>\$ 2,800</b>             |                                       |

<sup>3</sup> Project descriptions can be found in Schedule B of the Application at the page indicated.

<sup>4</sup> Includes the Microsoft Enterprise Agreement; included as a multi-year project in Schedule C of the Application.

**2010 CAPITAL PROJECTS: MULTI-YEAR  
(000s)**

| <b><u>Capital Project</u></b>               | <b><u>Approved</u></b> | <b><u>2009</u></b> | <b><u>2010</u></b> | <b><u>2011</u></b> |
|---------------------------------------------|------------------------|--------------------|--------------------|--------------------|
| Microsoft Enterprise Agreement <sup>5</sup> | Order No. PU 27 (2008) | \$200              | \$200              | \$200              |

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<sup>5</sup> The Microsoft Enterprise Agreement is a multi-year project included in Schedule C of the Application.

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*Newfoundland & Labrador*

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**  
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