

IN THE MATTER OF THE

2011 CAPITAL BUDGET APPLICATION

FILED BY

NEWFOUNDLAND POWER INC.

**DECISION AND ORDER
OF THE BOARD**

ORDER No. P. U. 28(2010)

BEFORE:

**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. 28(2010)

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 2011 Capital Budget of \$72,969,000; and
- (b) fixing and determining its average rate base for 2009 in the amount of \$848,493,000.

BEFORE:

Darlene Whalen, P. Eng
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Dwanda Newman, LL.B
Commissioner

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TABLE OF CONTENTS

I	BACKGROUND	3
	1. The Application	3
	2. Board Authority	3
	3. Application Process	3
II	PROPOSED 2011 CAPITAL BUDGET	4
	1. Overview	4
	2. Evidence and Submissions	4
	3. Board Findings	8
III	2009 AVERAGE RATE BASE	9
IV	ORDER	10

I BACKGROUND

1. The Application

Newfoundland Power filed its 2011 Capital Budget Application (the “Application”) with the Board of Commissioners of Public Utilities (the “Board”) on July 15, 2010. In the Application Newfoundland Power requests that the Board make an Order:

- (i) approving its 2011 Capital Budget of \$72,969,000; and
- (ii) fixing and determining its average rate base for 2009 in the amount of \$848,493,000.

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

2. Board Authority

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

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

Section 78 gives the Board the authority 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. Section 78 also provides the Board with guidance on the elements that may be included in the rate base.

3. Application Process

Notice of the Application, including an invitation to participate, was published on July 24, 2010 in newspapers in the Province. Details of the Application and supporting documentation were posted on the Board’s website.

An intervention was received from the Consumer Advocate, Mr. Thomas Johnson. A total of 40 Requests for Information were issued to Newfoundland Power by the Consumer Advocate. Newfoundland Power responded to the Information Requests on August 26, 2010. The Consumer Advocate did not file intervenor evidence and did not request a technical conference or oral hearing of the Application.

Grant Thornton, the Board’s financial consultants, were retained to review the calculations of the 2009 actual average rate base. Grant Thornton filed a report on September 29, 2010 and copies were provided to Newfoundland Power and the Consumer Advocate.

The Consumer Advocate filed a written submission on October 7, 2010 and Newfoundland Power filed its written submission on October 14, 2010.

II PROPOSED 2011 CAPITAL BUDGET

1. Overview

Newfoundland Power's proposed total capital budget for 2011 is \$72,969,000. The proposed expenditures by asset class are as follows:

<u>Asset Class</u>	<u>Budget (\$000s)</u>
Generation-Hydro	\$ 7,696
Generation-Thermal	268
Substations	11,647
Transmission	4,745
Distribution	36,842
General Property	1,792
Transportation	2,254
Telecommunications	572
Information Systems	3,603
Unforeseen Allowance	750
General Expenses Capitalized	<u>2,800</u>
Total	<u>\$ 72,969</u>

2. Evidence and Submissions

Newfoundland Power provided detailed information supporting the overall capital budget for 2011 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 2011 capital budget is 12.8% larger than last year's capital budget of \$64.7 million approved by the Board in Order No. P. U. 41(2009). Newfoundland Power states the larger overall budget for 2011 is primarily attributable to the proposed expenditures in relation to hydro generation, substations and distribution. The proposed expenditures in relation to hydro generation are approximately \$2.4 million or over 45% higher than was proposed in the 2010 capital budget. The proposed expenditures in relation to substations for 2011 are \$1.4 million or 14% higher than proposed for 2010. The proposed expenditures in relation to distribution in 2011 are \$4.9 million or over 15% higher than proposed distribution for 2010.

The 2011 Capital Plan filed with the Application states that, over the next five years, Newfoundland Power plans to invest approximately \$396 million in plant and equipment. According to Newfoundland Power the need for greater system capacity over the next 5 years, in addition to federal regulatory changes and a directive from the Government of Canada will increase forecast capital expenditures through 2015.

In written submission the Consumer Advocate notes the increasing level of proposed capital expenditures year over year (2009 - \$61,600,000; 2010 - \$64,679,000; 2011 - \$72,969,000). The Consumer Advocate also notes that the 2011 Capital Plan filed with the Application points to significantly increased capital expenditures to 2015, when expenditure levels are projected to be \$81.8 million. When considered in the context of similar increasing capital expenditure levels by Newfoundland and Labrador Hydro the

Consumer Advocate submits that the overall levels of capital expenditure should be of concern. The Consumer Advocate argues that the onus is on the utility to establish that the expenditures proposed are necessary in the year in which they are proposed and represent the lowest cost alternative for the provision of electricity service in the province.

According to the Consumer Advocate there are often cases where the utility has decided to delay a project that it had previously intended to put forward. The replacement of the Rattling Lake spillway and the refurbishment of the Victoria Hydro Plant are cited as projects that were identified as necessary but were deferred by Newfoundland Power for specific reasons. The Consumer Advocate suggests that there is an element of subjectivity in assessing whether a project can be deferred. He states, *“Such examples also serve to illustrate the implausibility of the company’s claim that not a single project that it has put forward can be prudently deferred beyond 2011.”* (Consumer Advocate, Written Submission, pg. 6)

The Consumer Advocate suggests that, in a capital budget application, a utility should:

- a) *provide guidance to the Board and interested parties as regards the ranking of the importance of the projects being proposed in the Application; and*
- b) *where applicable to the type of project in question, explain specifically what deferral alternatives have been considered and why deferral for any period of time was not found to be a prudent option in the circumstances.”* (Consumer Advocate, Written Submission, pg. 8)

According to the Consumer Advocate this would add transparency to the capital budget process and complement the purpose of the Capital Budget Guidelines. He states:

“If the Board was provided with the utility’s assessment of the relative importance of the proposed projects, the Board (and Intervenors) would be better placed to ensure that the interests of consumers and the utility were appropriately balanced.” (Consumer Advocate, Written Submission, pg. 8)

In response Newfoundland Power submits that all projects in the 2011 Capital Budget are required to be completed in 2011 and cannot be prudently deferred. Newfoundland Power states that changes in forecast capital expenditures are inevitable, as are modifications to project schedules contemplated in five-year capital plans. With respect to the Consumer Advocate’s suggestion regarding ranking of projects Newfoundland Power notes that that the Consumer Advocate did not provide criteria for the ranking of the relative importance of capital projects, nor how such a ranking should be used by the Board in deciding whether a particular capital project is justified. According to Newfoundland Power the Board’s existing capital budget review process, as set out in the Capital Budget Guidelines, fulfils its stated purpose of providing clarity and consistency in the submission of capital expenditures by a utility, while ensuring transparent and fair oversight by the Board.

The Board notes that the Consumer Advocate is not suggesting that Newfoundland Power’s 2011 Capital Budget Application does not conform to the requirements of the Capital Budget Guidelines. Rather the Consumer Advocate appears to be suggesting a change to the guidelines to require additional information from both utilities as part of a capital budget filing. The Board notes that the existing Capital Budget Guidelines were prepared as part of a consultative process involving Board staff, Newfoundland Power, Newfoundland and Labrador Hydro, the Industrial Customers and the Consumer Advocate. Notwithstanding the merits of any proposed changes the Board is not inclined to consider changes to the guidelines in the context of a specific capital budget application. Any such proposals should be raised with all the stakeholders and, following consultation, brought forward to the Board for consideration.

1 With regards to the Consumer Advocate's submission that Newfoundland Power has not demonstrated
2 that the proposed projects for 2011 cannot be deferred beyond 2011 the Board is satisfied that, based on
3 the evidence and in the absence of any evidence to the contrary, the projects proposed are required to
4 enable Newfoundland Power to meet its legislated obligations with respect to the provision of electrical
5 service. The Board expects that, in the context of preparing an annual capital budget, projects initially
6 included in a 5-year capital plan would be reassessed in light of the most current information, including
7 asset performance, engineering reviews, and updated forecasts of customer growth. Once a decision has
8 been made by the utility to include a specific project in an annual capital budget the Board's role is to
9 assess whether the evidence filed supports approval of the project expenditure.

10
11 In relation to the particular projects the Consumer Advocate raises concerns in relation to three projects;
12 (1) Vehicle Mobile Computing Infrastructure; (2) 2011 Application Enhancements; and, (3) Replacement
13 of Rattling Brook Spillway.

14
15 Vehicle Mobile Computing Infrastructure

16
17 Newfoundland Power proposes an expenditure in 2011 of \$178,000 to complete the final year of a three-
18 year project to install mobile computing infrastructure in its vehicles. Expenditures of \$350,000 in 2009
19 and \$272,000 in 2010 were approved by the Board as part of the last two capital budget applications for
20 the installation of ruggedized laptops in a total of 60 vehicles. In 2011 Newfoundland Power is proposing
21 to install ruggedized laptops in the remaining 20 vehicles, which will result in mobile computing
22 capability across its entire service territory.

23
24 In his written submission (pg. 11) the Consumer Advocate states his concern with further mobile
25 computing installations at this point. The Consumer Advocate submits that "...at this stage the prudent
26 course is to learn from the existing deployments of the technology and to quantify what benefits, if any,
27 will enure to the advantage of customers through this technology's deployment."

28
29 Newfoundland Power submits that the Consumer Advocate's suggestion that approval of this project
30 should wait until benefits are quantified would mean that the existing paper-based processes would have
31 to be maintained in addition to the mobile computer-based processes. This will, according to
32 Newfoundland Power, delay the realization of further benefits and add undue complexity to operations.
33 Newfoundland Power also argues that there is no evidence that the Consumer Advocate's proposed
34 approach will in any way assist in the quantification of benefits, stating that "...the only reasonable
35 alternative for maximizing the opportunities to improve efficiency and customer service associated with
36 vehicle mobile computing infrastructure is to complete the installation in the remaining 20 vehicles."

37
38 The Board notes that Newfoundland Power filed the documentation required as part of Order No. P.U.
39 41(2009) with regard to the expected opportunities for improvements in safety and efficiency associated
40 with this project. According to Newfoundland Power, with the 2011 proposed expenditure, mobile
41 computing will be fully deployed in its electrical line and maintenance operations. Newfoundland Power
42 notes that the use of mobile computing is becoming increasingly common in other Canadian utilities and
43 that this combined experience should inform its future choices in mobile computing. In the Board's view
44 completion of this project as proposed will provide the best opportunity for realized efficiencies and
45 safety improvements. The Board is satisfied that this expenditure should be approved based on the
46 evidence.

Application Enhancements

Newfoundland Power proposes to spend \$983,000 in 2011 on a pooled project under the description Application Enhancements. The proposed projects include meter reading improvements, electrical engineering software enhancements, work dispatch improvements, customer service internet and energy conservation website enhancements. According to the evidence filed with the Application some of the projects are justified on the basis of improving customer service, others will increase operational efficiencies, and some will have a positive impact on both customer service and operational efficiency. The individual projects are described and costed in a report "2011 Application Enhancements" filed with the Application.

The Consumer Advocate submits that the record does not justify the approval of these projects, and, that in the absence of an overall plan for these application enhancements, it is difficult to see how the proposed annual expenditures fit into an overall picture. According to the Consumer Advocate Newfoundland Power "...has not established that it has assessed and considered all reasonable alternatives, including deferral of these projects as per the requirement of the Guidelines." (Consumer Advocate, Written Submission, pg. 13)

In its written submission Newfoundland Power submits that there is no evidence that there are reasonable alternatives to the proposed projects that have not been considered and that, in light of the anticipated benefits, deferral is not considered to be an option.

The Board is satisfied that this project should be approved as proposed. Newfoundland Power has provided complete descriptions of the projects to be completed in 2011 and the associated costs and benefits. The Board has approved similar expenditures in each of the capital budgets since 2006. The Board notes that this level of annual expenditure for Application Enhancements is projected to continue for 2012-2015 but also agrees with Newfoundland Power's submission that the anticipated benefits justify approval of the proposed expenditures. In particular the improvements in meter reading, customer service internet and the energy conservation website should positively impact customer operations.

Replacement of Rattling Lake Spillway

Rattling Lake Spillway is the main spillway in the Rattling Brook hydroelectric development, Newfoundland Power's largest generating station producing approximately 78.1 GWh of energy or about 18.2% of Newfoundland Power's total hydroelectric production. The proposed project to replace the Rattling Lake Spillway is part of a package of civil infrastructure work proposed for Rattling Brook at a total cost of \$2,600,000. The Rattling Lake Spillway was initially recommended for replacement in 2008 following completion of the Rattling Brook hydro plant refurbishment in 2007. Due to uncertainty regarding the Department of Fisheries and Oceans' requirements for fish passage at Rattling Brook the spillway replacement was temporarily deferred. The Department has since advised that fish passage utilizing the spillway will not be required and Newfoundland Power proposes proceeding with the project in 2011. The estimated cost of replacing Rattling Brook Spillway is \$1,800,000.

According to the Application the existing spillway cannot safely pass the design flood with stoplogs in place and the process of removing stoplogs in adverse weather conditions poses danger to employees and, in the case of extreme flood conditions and inaccessibility to the site, jeopardizes dam safety. Newfoundland Power proposes to replace the existing spillway with a gravity labyrinth overflow spillway which will provide adequate discharge conditions, satisfy freeboard requirements and eliminate the need

1 for user intervention. According to Newfoundland Power this option is the most feasible and least cost
2 option. An independent engineering assessment report was also filed as part of the project justification.

3
4 In written submission (pg. 14) the Consumer Advocate argues that there is no indication in the evidence
5 as to *“why it is not possible to defer this costly project in the manner it has been doing for a year, or two*
6 *or more years.”*

7
8 In response to the Consumer Advocate’s suggestion that the proposed replacement should be again
9 deferred Newfoundland Power submits that the existing spillway structure, which was commissioned in
10 1958, is essentially in original condition and does not satisfy industry standard performance criteria for
11 stability. In addition the manual stoplog removal presents a hazard to workers and a threat to dam safety
12 under certain conditions. The deferral of the project has only been possible by limiting the normal
13 operation of the spillway, including limiting the reservoir elevation and removing stoplogs when
14 excessive spill events are anticipated. Newfoundland Power argues that there is no evidence to suggest
15 that it is reasonable to continue operating the Rattling Lake Spillway in an inefficient manner for the sole
16 purpose of deferring its replacement.

17
18 The Board is satisfied that this project should be approved as proposed. It is a significant capital
19 expenditure but, based on the evidence, there is no reason to delay the project further. Newfoundland
20 Power has acted responsibly in adjusting operating conditions to allow for the delay until regulatory
21 requirements regarding fish passage at Rattling Brook were finalized. The safety concerns for both
22 employees and dams associated with the stoplog removal operation at the existing spillway need to be
23 dealt with and the proposed replacement spillway will address those concerns.

24 25 **3. Board Findings**

26
27 The Board has reviewed the documentation and evidence on the record and finds that the proposed capital
28 purchases and construction projects in excess of \$50,000 are prudent and reasonable and should be
29 approved. The Board also finds that the proposed total capital budget for 2011 is prudent and reasonable
30 and will, therefore, approve Newfoundland Power’s 2011 Capital Budget in the amount of \$72,969,000.

1 **III. 2009 AVERAGE RATE BASE**

2
3 The following table shows the calculation of the actual average rate base for 2009 compared with 2008:

	(\$000s)	
	<u>2009</u>	<u>2008</u>
Net Plant Investment		
Plant Investment	\$1,338,408	1,286,039
Accumulated Amortization	(562,009)	(539,654)
Contributions in Aid of Construction	(29,017)	(25,884)
	747,382	720,501
Additions to Rate Base		
Deferred Charges	103,761	100,321
Deferred Energy Replacement Cost	383	766
Cost Recovery Deferral – Hearing Costs	201	402
Cost Recovery Deferral- Depreciation	3,862	7,724
Cost Recovery Deferral - Conservation	948	-
Customer Finance Programs	1,679	1,776
Weather Normalization Reserve	3,919	5,910
	114,753	116,899
Deductions from Rate Base		
Municipal Tax Liability	1,363	2,727
Unrecognized 2005 Unbilled Revenue	4,618	9,236
Customer Security Deposits	581	785
Accrued Pension Obligation	3,379	3,142
Future Income Taxes	2,297	1,184
Demand Management Incentive Account	-	426
Purchased Power Unit Cost Variance Reserve	447	895
	12,685	18,395
Year End Rate Base	849,450	819,005
Average Rate Base Before Allowances	834,228	806,833
Rate Base Allowances		
Materials and Supplies Allowance	4,366	4,327
Cash Working Capital Allowance	9,899	9,716
Average Rate Base at Year End	\$848,493	820,876

Source: Newfoundland Power 2011 Capital Budget Application, Schedule D

1 The actual average rate base for 2009 has increased by \$27,617,000 from 2008.

2
3 Grant Thornton reviewed the calculation of the actual average rate base for 2009 and provided an opinion
4 that the calculation is accurate and in accordance with previous Board Orders. The Consumer Advocate
5 does not raise any issues as to the approval of the proposed 2009 average rate base. The Board will
6 approve all of the components of and Newfoundland Power's average rate base for 2009 in the amount of
7 \$848,493,000.
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 \$50,000, as set
15 out in Schedule A to this Order, are approved.
16
17 2. The 2011 Capital Budget for improvements and additions to Newfoundland Power's property
18 in an amount of \$72,969,000 is approved.
19
20 3. The average rate base for the year ending December 31, 2009 is hereby fixed and determined at
21 \$848,493,000.
22
23 4. Unless otherwise directed by the Board, Newfoundland Power shall file an annual report to the
24 Board on its 2011 capital expenditures by March 1, 2012.
25
26 5. Unless otherwise directed by the Board, Newfoundland Power shall provide, in conjunction
27 with the 2012 Capital Budget Application, a status report on the 2011 capital budget
28 expenditures showing for each project:
29
30 (i) the approved budget for 2011;
31 (ii) the expenditures prior to 2011;
32 (iii) the 2011 expenditures to the date of the Application;
33 (iv) the remaining projected expenditures for 2011;
34 (v) the variance between the projected total expenditures and the approved budget; and
35 (vi) an explanation of the variance.
36
37 6. Newfoundland Power shall pay all costs and expenses of the Board incurred in connection with
38 the Application.

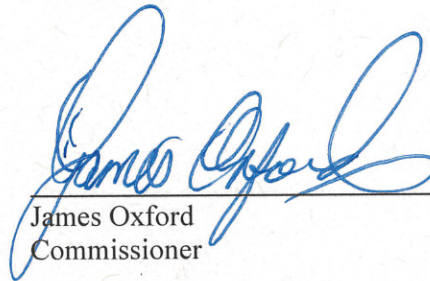
Dated at St. John's, Newfoundland and Labrador this 15th day of November 2010.



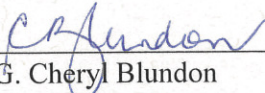
Darlene Whalen, P.Eng.
Vice-Chair



Dwanda Newman, LL.B.
Commissioner



James Oxford
Commissioner



G. Cheryl Blundon
Board Secretary

2011 CAPITAL BUDGET SUMMARY

<u>Asset Class</u>	<u>Budget (000s)</u>
1. Generation - Hydro	\$ 7,696
2. Generation - Thermal	268
3. Substations	11,647
4. Transmission	4,745
5. Distribution	36,842
6. General Property	1,792
7. Transportation	2,254
8. Telecommunications	572
9. Information Systems	3,603
10. Unforeseen Allowance	750
11. General Expenses Capitalized	2,800
Total	<u>\$ 72,969</u>

2011 CAPITAL PROJECTS (BY ASSET CLASS)

Capital Projects

Budget (000s)

1. Generation – Hydro

Facility Rehabilitation	\$ 1,610
Horse Chops Rewind and Rotor Re-insulation	1,276
Rattling Brook Dam Refurbishment	2,600
Hydro Plant Production Increase	650
Sandy Brook Plant Refurbishment	1,560

Total Generation – Hydro **\$ 7,696**

2. Generation – Thermal

Facility Rehabilitation Thermal	\$ 268
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Total Generation – Thermal **\$ 268**

3. Substations

Substations Refurbishment and Modernization	\$ 3,074
Replacements Due to In-Service Failures	2,221
Additions Due to Load Growth	4,852
PCB Bushing Phase-out	1,500

Total Substations **\$ 11,647**

4. Transmission

Transmission Line Rebuild	\$ 4,745
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Total Transmission **\$ 4,745**

2011 CAPITAL PROJECTS (BY ASSET CLASS)

Capital Projects

Budget (000s)

5. Distribution

Extensions	\$ 11,568
Meters	1,810
Services	2,195
Street Lighting	581
Replace Mercury Vapour Street Lights	7,999
Transformers	3,609
Reconstruction	3,073
Rebuild Distribution Lines	3,088
Relocate/Replace Distribution Lines for Third Parties	782
Distribution Reliability Initiative	521
St. John's Trunk Feeders	160
Feeder Additions for Growth	1,281
Allowance for Funds Used During Construction	175

Total Distribution **\$ 36,842**

6. General Property

Tools and Equipment	\$ 508
Additions to Real Property	224
Kenmount Road 2 nd Floor HVAC	435
Kenmount Road Building Flooring Replacement	150
Kenmount Road Building Entrance Renovation	125
Purchase Bill Inserter for Production Centre	350

Total General Property **\$ 1,792**

7. Transportation

Purchase Vehicles and Aerial Devices	\$ 2,254
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Total Transportation **\$ 2,254**

2011 CAPITAL PROJECTS (BY ASSET CLASS)

<u>Capital Projects</u>	<u>Budget (000s)</u>
8. Telecommunications	
Replace/Upgrade Communications Equipment	\$ 146
Fibre Optic Circuit Replacement	426
<i>Total Telecommunications</i>	\$ 572
9. Information Systems	
Application Enhancements	\$ 983
System Upgrades ¹	808
Personal Computer Infrastructure	390
Shared Server Infrastructure	1,092
Network Infrastructure	152
Vehicle Mobile Computing Infrastructure	178
<i>Total Information Systems</i>	\$ 3,603
10. Unforeseen Allowance	
<u>Allowance for Unforeseen Items</u>	\$ 750
<i>Total Unforeseen Allowance</i>	<u>\$ 750</u>
11. General Expenses Capitalized	
General Expenses Capitalized	\$ 2,800
<i>Total General Expenses Capitalized</i>	<u>\$ 2,800</u>

¹ Includes the Microsoft Enterprise Agreement; included as a multi-year project in Schedule C of the Application.

**2011 CAPITAL PROJECTS: MULTI-YEAR
(000s)**

<u>Capital Project</u>	<u>Approved</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Microsoft Enterprise Agreement ²	Order No. PU 27(2008)	\$200	\$200	\$200

² The Microsoft Enterprise Agreement is a multi-year project included in Schedule C of the Application.

Newfoundland & Labrador

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