

1 **Q. Re Sandy Brook Plant Refurbishment (other) p. 10 of 100 and Tab 1.4**

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3 **In NP's 2010 Capital Plan 2010-2014 found at page A-2 of the 2010 CBA there was**
4 **no capital work planned for the Sandy Brook plant until the year 2014, at which**
5 **time it was estimated that \$825,000 would be incurred for "Sandy Brook Governors**
6 **P & C". Please provide a copy of any assessments/reports which were used by NP to**
7 **determine that capital work was not required at the Sandy Brook Plant until 2014.**
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9 **A.** There was no assessment or report used by Newfoundland Power to determine that
10 capital work was *not* required at the Sandy Brook Plant until 2014.
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12 Each year, Newfoundland Power files with the Board a Capital Plan providing a 5-year
13 outlook on anticipated capital expenditures of the Company. A primary aim of the
14 Capital Plan is to maintain reasonable stability in the Company's annual capital budgets
15 on a prospective basis. This type of outlook has been recognized by the Board as
16 conducive to fostering stable and predictable customer rates.
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18 In creating a Capital Plan, the Company does not perform a detailed engineering
19 assessment of every project described in the 5-year outlook. Accordingly, there is a
20 higher degree of uncertainty associated with expenditures beyond the next year's capital
21 budget. Projects identified beyond the ensuing year's capital budget may be deferred or
22 accelerated. The Sandy Brook Hydro Plant Refurbishment is an example of a project
23 which was accelerated. The Heart's Content Hydro Plant Refurbishment, identified in
24 the Company's 2009 Capital Plan as a 2012 capital project, on the other hand, is now
25 forecast to be a 2015 capital project. These types of adjustments in project scheduling
26 are practically inevitable if reasonable stability in annual capital budgets is to be
27 achieved.
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29 The most recent Capital Plan is the typical starting point for development of the
30 Company's next annual capital budget. Each annual capital budget will respond to a
31 medley of factors which will affect the level of required capital expenditure in any
32 particular year. These factors will include such things as observed asset condition,
33 construction inflation, and evolving customer and regulatory requirements.
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35 Newfoundland Power's annual capital budget is typically developed over a period of
36 months during the preceding year. Forecast capital requirements are reviewed and
37 assessed in light of the most recent information available. This information could
38 include asset performance and condition assessments; engineering reviews; and forecasts
39 of additional customers and customer electricity requirements. Such information informs
40 the Company's decision on whether or not it is appropriate to proceed with specific
41 projects in the ensuing year.
42

43 It is not unusual that the order of project execution would vary between the Capital Plans
44 for successive capital budget applications. However, given that hydro plant
45 refurbishments typically involve expenditures in excess of \$500,000, detailed condition

1 assessment by a qualified professional engineer is routine. This requirement is reflected
2 in the Board's *Capital Budget Application Guidelines*.

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4 In estimating projects to be included in the 5-year Capital Plan, the Company will often
5 rely upon its experience with similar assets. In Newfoundland Power's 2010 Capital
6 Plan, it was estimated that refurbishment of the Sandy Brook Hydro Plant would be
7 required in 2014 when the plant was 51 years old. Following detailed engineering
8 condition assessment, it was determined that refurbishment was required in 2011 to
9 substantially replace components which will be 48 years old at that time.