

Q. Over the past three-year period the following capital budget amounts were approved by the Board:

|                                 |              |                         |
|---------------------------------|--------------|-------------------------|
| 2009 Capital Budget Application | \$61,571,000 | Order No. P.U. 27(2008) |
| 2010 Capital Budget Application | 64,679,000   | Order No. P.U. 41(2009) |
| 2011 Capital Budget Application | 72,969,000   | Order No. P.U. 28(2010) |

The upcoming five years are forecast to be:

|              |              |              |              |              |
|--------------|--------------|--------------|--------------|--------------|
| <u>2012</u>  | <u>2013</u>  | <u>2014</u>  | <u>2015</u>  | <u>2016</u>  |
| \$77,293,000 | \$79,611,000 | \$88,086,000 | \$86,397,000 | \$85,176,000 |

Other than the impact on revenue requirement, what other implications would there be for customers of the increased magnitude of the annual capital budgets?

A. *Annual Capital Budget Magnitude*

Newfoundland Power is proposing continued stable capital investment over the next 5 years.

Table 1 provides the Company's annual capital expenditures for the period 2007 to 2011 and the average capital expenditure for the period, expressed in actual and 2011 dollars.

**Table 1**  
**Annual Capital Expenditures**

|         | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011F</u> | <u>Average</u> |
|---------|-------------|-------------|-------------|-------------|--------------|----------------|
| Actual  | 68,485      | 63,170      | 70,037      | 73,580      | 75,708       | 70,196         |
| 2011 \$ | 76,577      | 68,606      | 73,273      | 75,944      | 75,708       | 74,022         |

Newfoundland Power's annual capital expenditures for the 5 years from 2007 to 2011 average approximately \$74 million in 2011 dollars.

Table 2 provides the forecast annual capital expenditure for the period 2012 to 2016 and the average capital expenditure for the period, expressed in actual and 2011 dollars.

**Table 2**  
**Annual Capital Expenditures**

|         | <u>2012F</u> | <u>2013F</u> | <u>2014F</u> | <u>2015F</u> | <u>2016F</u> | <u>Average</u> |
|---------|--------------|--------------|--------------|--------------|--------------|----------------|
| Actual  | 77,293       | 79,611       | 88,086       | 86,397       | 85,176       | 83,313         |
| 2011 \$ | 74,882       | 74,790       | 80,270       | 76,359       | 73,004       | 75,861         |

1 Newfoundland Power's forecast annual capital expenditures for the next 5 years average  
2 approximately \$75.9 million in 2011 dollars. This level of annual capital expenditure is  
3 consistent on an inflation-adjusted basis with that for the period 2007 through 2011.  
4

5 *Implications for Customers*

6 In addition to the impact on revenue requirement, as described in Response to Request  
7 for Information PUB NP 008, Newfoundland Power's capital plan will impact the quality  
8 of service provided to customers in terms of the level of breakdown maintenance activity  
9 required and the associated cost.  
10

11 Newfoundland Power's ability to meet its obligation to provide safe and reliable  
12 electricity service to its customers at least cost is largely dependent upon the quality and  
13 condition of its plant and equipment. The Company's approach to management of  
14 existing assets attempts to balance the maximization of asset lives with the timely  
15 replacement of deteriorated plant and equipment. Maximizing asset lives tend to lower  
16 overall costs. However, the longer facilities are in the field and exposed to electrical,  
17 mechanical and climatic stresses, the greater the likelihood of failure which often results  
18 in increased operating cost (associated with failure response), reduced reliability of  
19 service and risk to safe operations.  
20

21 It is Newfoundland Power's view that continued stable capital investment will tend to  
22 keep breakdown maintenance activity at current or slightly reduced levels, thereby  
23 positively impacting the quality of service provided to customers while providing least  
24 cost, safe and reliable service.