

IN THE MATTER OF THE

2013 CAPITAL BUDGET APPLICATION
PHASE I

FILED BY

NEWFOUNDLAND AND LABRADOR HYDRO

**DECISION AND ORDER
OF THE BOARD**

ORDER NO. P.U. 2(2013)

BEFORE:

**Andy Wells
Chair and Chief Executive Officer**

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

**James Oxford
Commissioner**

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. P. U. 2(2013)

IN THE MATTER OF the *Electrical Power Control Act, 1994* SNL 1994, Chapter E-5.1 (the “EPCA”) and the *Public Utilities Act, RSNL 1990*, Chapter P-47 (the “Act”) as amended, and regulations thereunder;

and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro for an order:

- (a) approving its 2013 capital budget;
- (b) approving its 2013 capital purchases and construction projects in excess of \$50,000;
- (c) approving the estimated contributions in aid of construction for 2013; and
- (d) fixing and determining its average rate base for 2011.

BEFORE:

Andy Wells
Chair and Chief Executive Officer

Darlene Whalen, P. Eng.
Vice-Chair

James Oxford
Commissioner

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1 **I BACKGROUND**

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3 **1. The Application**

4
5 Newfoundland and Labrador Hydro ("Hydro") filed its 2013 Capital Budget Application (the
6 "Application") with the Board of Commissioners of Public Utilities (the "Board") on August 8,
7 2012 requesting that the Board make an Order:

- 8
9 (i) approving its 2013 Capital Budget of \$66,144,800;
10 (ii) approving 2013 capital purchases and construction projects in excess of \$50,000;
11 (iii) approving the estimated contributions in aid of construction for 2013 of
12 approximately \$400,000; and
13 (iv) fixing and determining its average rate base for 2011 in the amount of
14 \$1,493,218,000.

15
16
17 **2. Board Authority**

18
19 Section 41 of the *Act* requires a public utility to submit an annual capital budget of proposed
20 improvements or additions to its property to the Board for approval no later than December 15th
21 in each year for the next calendar year. The utility is required to include an estimate of
22 contributions toward the cost of improvements or additions to its property which the utility
23 intends to demand from its customers.

24
25 Section 41 also prohibits a utility from proceeding without the prior approval of the Board with
26 the construction, purchase or lease of improvements or additions to its property where (a) the
27 cost of the construction or purchase is in excess of \$50,000, or (b) the cost of the lease is in
28 excess of \$5,000 in a year of the lease.

29
30 Section 78 gives the Board the authority to fix and determine the rate base for the service
31 provided or supplied to the public by the utility and also gives the Board the power to revise the
32 rate base.

33
34 Board procedures and processes are established in accordance with the *Act* and the regulations
35 thereunder. The Board's Capital Budget Guidelines set out the detailed process for capital budget
36 applications.

37
38
39 **3. Application Process**

40
41 Notice of the Application was published in newspapers across the Province beginning on August
42 11, 2012 inviting participation in the proceeding. Details of the Application and supporting
43 documentation were posted on the Board's website.

1 Notices of intention to participate were filed by Hydro's Island Industrial Customers (Corner
2 Brook Pulp and Paper Limited, North Atlantic Refining Limited and Teck Resources Limited),
3 Newfoundland Power Inc., and the Consumer Advocate, Mr. Thomas Johnson.

4
5 The Board established a schedule for the proceeding, setting out the dates for the filing of
6 Requests for Information ("RFIs") and related responses. On September 21, 2012 the Board
7 notified Hydro that it had not received responses to 64 RFIs. As of October 16, 2012 responses
8 to 2 RFIs (PUB-NLH-1 and IC-NLH-40) were still outstanding and the Board advised that
9 consideration of the Application was suspended pending resolution of the outstanding responses.
10 On November 20, 2012 the Island Industrial Customers provided notice that they would not
11 pursue production of the information requested in IC-NLH-40. On December 4, 2012 Hydro
12 filed its response to PUB-NLH-1. A total of 238 RFIs were answered by Hydro.

13
14 The Island Industrial Customers submitted into evidence a document entitled *Public Safety*
15 *Around Dams -- Best Management Practices*, published by the Ontario Ministry of Natural
16 Resources and dated August 2011. Hydro did not object to this document being entered as
17 evidence.

18
19 No request for a public hearing was received. A revised scheduled for written submissions was
20 set by the Board on December 5, 2012.

21
22 Grant Thornton, the Board's financial consultants, reviewed the calculations of the 2011 average
23 rate base and filed a report on October 1, 2012 which was copied to all participants.

24
25 Newfoundland Power filed its written submission on October 3, 2012. The Consumer Advocate
26 and the Island Industrial Customers filed written submissions on December 19, 2012.

27
28 On December 18, 2012 Hydro advised that, due to refinements and changes in the deployment of
29 the Holyrood Thermal Generating Station with the sanctioning of the Muskrat Falls project, it
30 was withdrawing the following four projects from its 2013 Capital Budget Application:

- 31
32 (i) Upgrade Governor Controls on Units 1 and 2 (\$1,455,500);
33 (ii) Upgrade Vibration Monitoring System (\$519,900);
34 (iii) Install Cold-Reheat Condensate Drains and High Pressure Heater Trip Level Unit
35 3 (\$50,000); and
36 (iv) Install Fire Protection Upgrades (\$267,200).

37
38 On December 23, 2012 Hydro requested that the Board give priority in its considerations to
39 projects which the Board deemed appropriate to approve expeditiously and without further
40 consideration or analysis. On December 24, 2012 the Board responded to this request, requiring
41 Hydro to provide a list of projects that Hydro submits should be given priority approval. To
42 expedite this process, the Board also advised Hydro to seek the consent of the parties before
43 submitting its list.

On January 7, 2013 Hydro submitted a list of the 2013 Capital Budget project proposals split into Phase I and Phase II. As per the Board's direction, Hydro advised it had sought the consent of the parties to the Board considering the projects listed in Phase I on a priority basis. Hydro also advised of the cancellation of another Holyrood project: Rewind Generator Units 1 and 2 (\$1,107,600). On January 7, 2013 the Island Industrial Customers filed additional comments on Hydro's submissions on the procedure for approval of the proposed Phase I projects.

Both Newfoundland Power and the Consumer Advocate submitted emails on January 9, 2013 confirming that they did not have any objection to projects other than those that were dealt with in their submissions.

Hydro filed its written submission on January 9, 2013.

II PHASE I CAPITAL EXPENDITURES

1. Overview

Hydro's proposed Phase I capital expenditures by asset class are as follows:

2013 Capital Budget - Phase I Expenditures by Asset Class (\$000)	
	2013
GENERATION	\$10,503.2
TRANSMISSION AND RURAL OPERATIONS	27,470.3
GENERAL PROPERTIES	7,267.2
ALLOWANCE FOR UNFORESEEN ITEMS	1,000.0
Total	\$46,240.7

The capital expenditures outlined above include capital projects over \$50,000 to be completed in 2013, projects under \$50,000 to be completed in 2013, and multi-year capital projects to commence in 2013. There are also several multi-year projects that commenced prior to 2013 but require capital expenditures in 2013.

2. Phase I Projects

The Board has been requested by Hydro to consider approving the proposed Phase I projects on a priority basis. The remaining projects over \$50,000 that were contested by the parties will be considered by the Board as Phase II capital projects, along with the approval of Hydro's 2013 capital budget. The Board agrees that priority approval for those projects will permit Hydro to proceed with its 2013 capital program in advance of consideration and approval of the total 2013 capital budget. Hydro's proposed Phase I projects include capital expenditures that are more appropriately considered as part of the approval of the total 2013 capital budget, which will include Phase I and Phase II projects as well as projects under \$50,000 and 2013 capital

expenditures for multi-year projects previously approved. In this Decision the Board will consider only those Phase I projects over \$50,000 which are commencing in 2013 and require approval under section 41(3) of the *Act*.

The associated capital expenditures are set out below:

2013 Capital Budget - Phase I Capital Expenditures: Projects over \$50,000 (\$000)	
	<u>2013</u>
Single year projects commencing in 2013	\$29,205.5
Multi-year projects commencing in 2013	6,199.8
Allowance for Unforeseen Items	1,000.0
Total	\$36,405.3

Schedule A sets out the listing of 2013 Phase I capital projects over \$50,000 and Schedule B sets out the Phase I multi-year projects over \$50,000 to commence in 2013. The Board has reviewed the proposed Phase I capital projects in excess of \$50,000, the reports filed in support, the additional information filed by Hydro in its responses to RFIs, and the final submissions. The Board has completed its own independent examination and analysis of the projects proposed by Hydro in Phase I. The Board is satisfied that the projects are adequately justified and are appropriate and necessary in the circumstances. The Allowance for Unforeseen Items is dealt with separately below.

The Board notes that the submissions of the Intervenors, while not contesting consideration by the Board of the Phase I projects for priority approval, raise several substantive issues, including the level of proposed and projected capital spending and Hydro's non-compliance with Order No. P.U. 5(2012) with respect to the requirement to file a capital spending overview for the Holyrood Thermal Generating Plant. The Board will address these issues as well as all outstanding matters related to Hydro's 2013 Capital Budget in its Decision and Order for Phase II projects.

3. Allowance for Unforeseen Items

Hydro has requested approval of an Allowance for Unforeseen Items of \$1,000,000 as part of its 2013 Phase I Capital Projects. This allowance was established to permit a utility to respond to emergency events and undertake capital spending without prior approval of the Board as required under section 41(3) of the *Act*. The Capital Budget Guidelines govern the use of this allowance, including notice and reporting requirements. The use of this allowance by Hydro during 2011 and 2012 is currently under review by the Board and will also be included in the ongoing review of the Board's Capital Budget Guidelines.

1 Notwithstanding the current matters before the Board related to the Allowance for Unforeseen
2 Items the Board is of the view that the allowance is necessary to provide for timely, effective and
3 efficient response to emergency situations without the requirement for the utility to make an
4 application to the Board under section 43(1) of the *Act* for prior approval of the capital project
5 and associated expenditure. The Board will approve the 2013 Allowance for Unforeseen Events
6 of \$1,000,000 for Hydro pending resolution of the issues currently under consideration.
7 However, as required by the Capital Budget Guidelines, Hydro must notify the Board in writing
8 before proceeding with any work using the Allowance for Unforeseen Items account, or as soon
9 as practicable thereafter. The Board will closely monitor the use of this account and may put in
10 place additional reporting requirements depending on the circumstances and the nature of the
11 emergency.
12
13

14 **III ORDER**

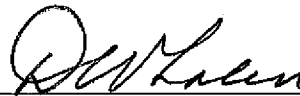
15 **IT IS THEREFORE ORDERED THAT:**

- 16 **1. Hydro's proposed construction and purchase of improvements or additions to its**
17 **property in excess of \$50,000 to be completed in 2013 are approved as set out in**
18 **Schedule A to this Order.**
- 19 **2. Hydro's proposed multi-year construction and purchase of improvements or additions**
20 **to its property in excess of \$50,000 to begin in 2013 are approved as set out in Schedule**
21 **B to this Order.**
- 22 **3. Hydro shall pay all costs and expenses of the Board incurred in connection with the**
23 **Application.**
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25
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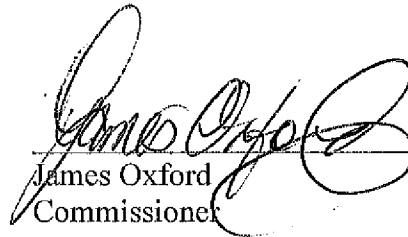
DATED at St. John's, Newfoundland and Labrador this 23rd day of January, 2013.



Andy Wells
Chair & Chief Executive Officer



Darlene Whalen, P.Eng.
Vice-Chair



James Oxford
Commissioner



Cheryl Blundon
Board Secretary

Schedule A

ORDER No. P. U. 2(2013)

Single Year Projects over \$50,000

ISSUED: JANUARY 23, 2013

NEWFOUNDLAND AND LABRADOR HYDRO
2013 CAPITAL BUDGET
PHASE I
SINGLE YEAR PROJECTS OVER \$50,000
(\$000)

Schedule A
Order No. P.U. 2(2013)
Page 1 of 2

PROJECT DESCRIPTION	2013
<u>GENERATION</u>	
<u>HYDRAULIC PLANT</u>	
Replace Stator Windings Unit 1 - Bay d'Espoir	5,663.5
Upgrade Burnt Dam Spillway - Bay d'Espoir	885.8
Overhaul Turbine/Generator Units - Bay d'Espoir and Cat Arm	428.1
Replace MicroSCADA Computers - Granite Canal	297.4
Replace North End Equipment Door - Bay d'Espoir	265.5
Replace Fall Arrest System on Surge Tank 2 - Bay d'Espoir	153.0
TOTAL HYDRAULIC PLANT	7,693.3
TOTAL GENERATION	7,693.3
<u>TRANSMISSION AND RURAL OPERATIONS</u>	
<u>TERMINAL STATIONS</u>	
Upgrade Circuit Breakers - Various Sites	2,785.3
Upgrade Power Transformers - Various Sites	1,621.1
Replace Disconnects - Various Sites	492.6
Replace Surge Arrestors - Various Sites	121.3
Install Transformer Fans - Conne River	114.9
TOTAL TERMINAL STATIONS	5,135.2
<u>DISTRIBUTION</u>	
Provide Service Extensions - All Service Areas	5,006.0
Additions for Load Distribution Systems - Various Sites	3,114.7
Upgrade Distribution System - All Service Areas	2,790.0
Replace Recloser Control Panels - Various Sites	209.7
TOTAL DISTRIBUTION	11,120.4
<u>GENERATION</u>	
Overhaul Diesel Units - Various Sites	977.8
TOTAL GENERATION	977.8
<u>PROPERTIES</u>	
Install Fall Protection Equipment - Various Sites	196.6
TOTAL PROPERTIES	196.6
<u>METERING</u>	
Purchase Meters, Equipment and Metering Tanks - Various Sites	199.5
Purchase 10 Position Meter Calibration Test Console - Hydro Place	192.5
TOTAL METERING	392.0
<u>TOOLS AND EQUIPMENT</u>	
Replace Light Duty Mobile Equipment - Various Sites	476.5
TOTAL TOOLS AND EQUIPMENT	476.5
TOTAL TRANSMISSION AND RURAL OPERATIONS	18,298.5

NEWFOUNDLAND AND LABRADOR HYDRO
2013 CAPITAL BUDGET
PHASE I
SINGLE YEAR PROJECTS OVER \$50,000
(\$000)

Schedule A
Order No. P.U. 2(2013)
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PROJECT DESCRIPTION	2013
<u>GENERAL PROPERTIES</u>	
<u>INFORMATION SYSTEMS</u>	
<u>SOFTWARE APPLICATIONS</u>	
<u>New Infrastructure</u>	
Perform Minor Application Enhancements - Hydro Place	126.8
Cost Recoveries	(45.7)
<u>Upgrade of Technology</u>	
Upgrade Business Intelligence Software - Hydro Place	576.9
Cost Recoveries	(207.7)
Upgrade Energy Management System - Hydro Place	129.9
TOTAL SOFTWARE APPLICATIONS	580.2
<u>COMPUTER OPERATIONS</u>	
<u>Infrastructure Replacement</u>	
Replace Peripheral Infrastructure - Various Sites	309.9
Upgrade Enterprise Storage Capacity - Hydro Place	194.9
Cost Recoveries	(70.2)
<u>Upgrade of Technology</u>	
Upgrade Server Technology Program - Various Sites	499.4
Cost Recoveries	(131.8)
Replace Computer Room Air Conditioner - Hydro Place	130.0
Cost Recoveries	(46.8)
Replace Helpdesk Service Manager Application - Hydro Place	96.5
Cost Recoveries	(34.7)
TOTAL COMPUTER OPERATIONS	947.2
TOTAL INFORMATION SYSTEMS	1,527.4
<u>TELECONTROL</u>	
<u>NETWORK SERVICES</u>	
<u>Infrastructure Replacement</u>	
Replace Radomes - Various Sites	336.0
<u>Network Infrastructure</u>	
Replace Battery Banks and Chargers - Various Sites	782.0
Replace Network Communications Equipment - Various Sites	182.4
<u>Upgrade of Technology</u>	
Replace Telephone System - St. Anthony	135.4
TOTAL TELECONTROL	1,435.8
<u>ADMINISTRATION</u>	
Remove Safety Hazards - Various Sites	250.5
TOTAL ADMINISTRATION	250.5
TOTAL GENERAL PROPERTIES	1,686.3
ALLOWANCE FOR UNFORSEEN ITEMS	1,000.0
TOTAL PHASE I SINGLE YEAR PROJECTS OVER \$50,000	30,205.5

Schedule B

ORDER No. P. U. 2(2013)

Multi-Year Projects over \$50,000

ISSUED: JANUARY 23, 2013

NEWFOUNDLAND AND LABRADOR HYDRO
2013 CAPITAL BUDGET
PHASE I
MULTI-YEAR YEAR PROJECTS OVER \$50,000
(\$000)

Multi-year Projects Commencing in 2013

PROJECT DESCRIPTION	2013	2014	2015	2016	2017
Replace Instrument Transformers - Various Sites	593.2	552.8	538.4	1,511.6	471.9
Replace Compressed Air Systems - Sunnyside and Stoney Brook	303.0	2,105.9			
Replace Insulators - Various Sites	187.1	287.9			
Upgrade Microsoft Products - Various Sites	656.7	455.1	465.2		
Cost Recoveries	(236.4)	(163.8)	(167.5)		
Additions for Load Isolated Generation Stations - Various Sites	2,040.2	9,357.9			
Install Automated Meter Reading - Various Sites	397.9	258.8			
Replace Off-Road Track Vehicles - Whitbourne, Happy Valley and Port Saunders	416.8	1,054.1			
Replace MDR4000 Microwave Radio (West) - Various Sites	539.0	706.9			
Replace Vehicles and Aerial Devices (2013-2014) - Various Sites	1,302.3	679.2			
TOTAL PHASE I MULTI-YEAR PROJECTS OVER \$50,000 COMMENCING 2013	6,199.8	15,294.8	836.1	1,511.6	471.9

Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
120 TORBAY ROAD, ST. JOHN'S, NL

Website: www.pub.nl.ca
E-mail: ito@pub.nl.ca

Telephone: 1-709-726-8600
Toll free: 1-866-782-0006
