

1 Q. **Re: IN-NLH-049**

2 “The Labrador City Upgrade includes two separate projects: (1) a terminal station
3 upgrade; and (2) a distribution voltage conversion to 25 kV. The project to upgrade
4 terminal stations to 25 kV in Labrador City will be completed in 2013. The voltage
5 conversion project was to be completed by the end of 2013. All of the budgeted
6 dollars are expected to be spent by the end of 2013. However, this project will not
7 be complete. It will be proposed that this project be carried over into 2014 and
8 2015. Hydro intends to file a supplementary application in order to seek approval
9 for the additional funding and extend the project by two years.”

10 Please estimate the cost of the additional funding to be requested and the
11 magnitude of its eventual rate impact, and explain the reason(s) why the voltage
12 conversion project was not completed on-time and on-budget.

13

14

15 A. []

16

17 The additional funding required for 2014 and 2015 to complete the Labrador City
18 Distribution Voltage Conversion is estimated to be \$1,847,100.

19

20 On November 20, 2014, Hydro’s application for the approval of additional 2014 and
21 2015 capital expenditures for the Labrador City Voltage Project was approved by
22 the Board. (P.U. 45(2014)) and is attached as IN-NLH-183 Attachment 1 (Revision 1).

23

24 With respect to the terminal station project, Hydro will be filing further
25 correspondence on this project for the Board’s review.

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

AN ORDER OF THE BOARD

NO. P.U. 45(2014)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1 (the
3 "*EPCA*") and the *Public Utilities Act*, RSNL 1990,
4 Chapter P-47 (the "*Act*"), as amended, and regulations
5 thereunder; and
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7 **IN THE MATTER OF** an application by
8 Newfoundland and Labrador Hydro for approval
9 of additional capital expenditures to complete
10 the Labrador City Voltage Upgrade pursuant to
11 section 41 of the *Act*.
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14 **WHEREAS** Newfoundland and Labrador Hydro ("Hydro") is a corporation continued and
15 existing under the *Hydro Corporation Act*, is a public utility within the meaning of the *Act*, and
16 is subject to the provisions of the *EPCA*; and
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18 **WHEREAS** subsection 41(3) of the *Act* states that a public utility shall not proceed with the
19 construction, purchase or lease of improvements or additions to its property where:
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- 21 a) the cost of construction or purchase is in excess of \$50,000; or
22 b) the cost of the lease is in excess of \$5,000 in a year of the lease
23

24 without prior approval of the Board; and
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26 **WHEREAS** in Order No. P.U. 42(2013) the Board approved Hydro's 2014 Capital Budget in
27 the amount of \$97,805,300; and
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29 **WHEREAS** in Order No. P.U. 16(2014) the Board approved Hydro's proposal to proceed with
30 the purchase and installation of 100 MW of combustion turbine generation at the Holyrood
31 Thermal Generating Station, with cost recovery to be determined by the Board in a future Order;
32 and
33

34 **WHEREAS** in Order No. P.U. 23(2014) the Board approved a supplementary amount of
35 \$580,000 to the Allowance for Unforeseen Items related to expenditures for the Holyrood Unit 3
36 east forced draft fan motor and the Sunnyside and Holyrood breaker overhauls and ordered that
37 recovery of these expenditures would be addressed upon receipt of a further application from
38 Hydro; and

1 **WHEREAS** the Board approved supplementary 2014 capital expenditures in:

- 2
3 (i) Order No. P.U. 29(2014) in the amount of \$7,197,800 in 2014 and \$1,266,400 in
4 2015 for the purchase and replacement of the Sunnyside T1 transformer and
5 associated equipment, modification to the protection relay system and addition of
6 a 230 kV breaker at the Sunnyside Terminal Station; and
7 (ii) Order No. P.U. 32(2014) in the amount of \$1,452,500 to replace the tap changer
8 on the T5 transformer at the Western Avalon Terminal Station;
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10 and ordered that recovery of these expenditures would be addressed in a subsequent order of the
11 Board following a further application by Hydro; and
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13 **WHEREAS** the Board also approved supplementary 2014 capital expenditures in:

- 14
15 (i) Order No. P.U. 33(2014) in the amount of \$3,632,200 to replace insulators on
16 transmission lines TL-201 and TL-203;
17 (ii) Order No. P.U. 34(2014) in the amount of \$636,700 in 2014 and \$360,000 in 2015
18 for the replacement of the excitation transformers at the Bay d'Espoir generating
19 station;
20 (iii) Order No. P.U. 36(2014) in the amount of \$958,800 for the installation of
21 additional transformer capacity at the Wabush Substation; and
22 (iv) Order No. P.U. 38(2014) in the amount of \$320,600 to replace an air compressor
23 at the Holyrood Thermal Generating Station; and
24

25 **WHEREAS** in Order No. P.U. 1(2010) the Board approved a multi-year project for the Labrador
26 City Voltage Upgrade at an estimated cost of \$9,400,300; and
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28 **WHEREAS** on September 30, 2014 the Board received an application (the "Application") from
29 Hydro to increase the estimated expenditure for the multi-year project to \$11,477,100 reflecting
30 an increase of \$199,700 in actual costs over budget for 2010 to 2013, plus additional forecast
31 costs of \$608,900 for 2014 and \$1,238,200 for 2015; and
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33 **WHEREAS** Hydro states the project has encountered challenges, including increased material
34 quantities, weather conditions and contractor availability, which have resulted in escalated costs
35 and schedule delays; and
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37 **WHEREAS** the Application was circulated to Newfoundland Power Inc. ("Newfoundland
38 Power"), the Consumer Advocate, a group of three Island Industrial customers: Corner Brook
39 Pulp and Paper Limited, North Atlantic Refining Limited and Teck Resources Limited (the
40 "Industrial Customer Group"), Vale Newfoundland and Labrador Limited ("Vale"), and Praxair
41 Canada Inc. ("Praxair"); and
42

43 **WHEREAS** the Board, Newfoundland Power and the Consumer Advocate issued Requests for
44 Information which were answered by Hydro on October 27, 2014; and

1 **WHEREAS** in response to PUB-NLH-1 Hydro corrected the total budget for the project to be
2 \$11,447,100; and

3
4 **WHEREAS** on October 31, 2014 the Consumer advocate filed a written submission; and

5
6 **WHEREAS** Newfoundland Power advised that, based on Hydro's response to NP-NLH-001, it
7 did not have any comments on the Application; and

8
9 **WHEREAS** on November 3, 2014 Hydro filed a reply submission to the parties' comments on
10 the Application; and

11
12 **WHEREAS** the Consumer Advocate supports the Application but raised concerns with the
13 magnitude of the cost over-run on the materials cost estimate, the extension of the schedule for
14 project completion and the accuracy of the budget estimate, and recommends that the Board
15 consider a review of the capital budget process; and

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17 **WHEREAS** Hydro submits that, since preparing the project estimate in 2009, it has changed its
18 standards and contingencies for its budgeting process as well as reorganized internally to
19 improve capital planning and execution; and

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21 **WHEREAS** Hydro also submits that it is confident that the current process for budgeting and
22 execution is improved and a review of the capital budget process is unnecessary; and

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24 **WHEREAS** the Board is satisfied that the proposed additional capital expenditures in 2014 and
25 2015 for the Labrador City Voltage Conversion project are necessary to allow Hydro to provide
26 service and facilities which are reasonably safe and adequate and reasonable and should be
27 approved; and

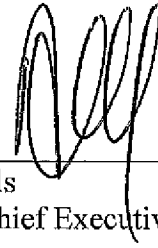
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29 **WHEREAS** the Board finds that it would not be appropriate to approve the variance in actual
30 costs over budget for the past years 2010 to 2013; and

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32 **WHEREAS** the Board is satisfied that the review of the capital budget process, as proposed by
33 the Consumer Advocate, is not required at this time.

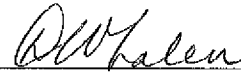
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35
36 **IT IS THEREFORE ORDERED THAT:**

- 37
38 1. The additional capital expenditures in the amount of \$608,900 for 2014 and \$1,238,200
39 for 2015 to complete the Labrador City Voltage Conversion are approved.
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41 2. Hydro shall pay all expenses of the Board arising from this Application.

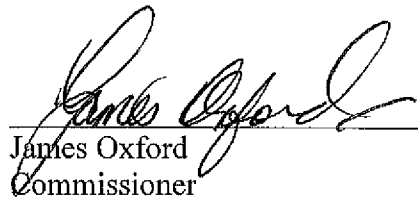
DATED at St. John's, Newfoundland and Labrador this 20th day of November 2014.



Andy Wells
Chair & Chief Executive Officer



Darlene Whalen, P.Eng.
Vice-Chair



James Oxford
Commissioner



Cheryl Blundon
Board Secretary