

May 25, 2016

The Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Ms. Cheryl Blundon
Director Corporate Services & Board Secretary

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro – 2013 General Rate Application
Prudence Review – Compliance Application**

Enclosed please find the original plus 12 copies of Newfoundland and Labrador Hydro's compliance application in relation to the above-noted matter.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Tracey L. Pennell
Legal Counsel

TPL/cp

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Thomas J. O'Reilly, Q.C. - Cox & Palmer
Dennis Browne, Q.C. - Browne Fitzgerald Morgan & Avis
Danny Dumaresque

Thomas Johnson, Q.C. - Consumer Advocate
Yvonne Jones, MP Labrador
Senwung Luk – Olthuis, Kleer, Townshend LLP
Genevieve M. Dawson – Benson Buffett

IN THE MATTER OF the *Public Utilities Act*,
RSNL, 1990, Chapter P-47 (The “Act”); and

IN THE MATTER OF a General Rate
Application (the Amended GRA) by
Newfoundland and Labrador Hydro for
approvals of, under Sections 70 and 75 of
the *Act*, changes in the rates to be charged
for the supply of power and energy to
Newfoundland Power, Rural Customers
and Industrial Customers; and under
Section 71 of the *Act*, changes in the Rules
and Regulations applicable to the supply of
electricity to Rural Customers; and

IN THE MATTER OF a prudence review by
the Board of Commissioners of Public
Utilities of certain projects and
expenditures of Newfoundland and
Labrador Hydro; and

IN THE MATTER OF an application by
Newfoundland and Labrador Hydro for
approval of:
i) revised 2014 revenue requirement and
revenue deficiency calculation; and
ii) revised 2015 test year revenue
requirement and revenue deficiency
calculation.

TO: The Board of Commissioners of Public Utilities (the “Board”)

The Prudence Review Order Compliance Application (the Compliance Application) of Newfoundland and Labrador Hydro states that:

1. Newfoundland and Labrador Hydro (Hydro) is a corporation continued and existing under the *Hydro Corporation Act*, is a public utility within the meaning of the *Act* and is subject to the provisions of the *Electrical Power Control Act, 1994*.

2. Under the *Act*, the Board has the general supervision of public utilities and requires that a public utility submit for the approval of the Board the rates, tolls and charges for the service provided by the public utility and the rules and regulations which relate to that service.
3. On July 30, 2013, Hydro filed a General Rate Application together with evidence in support thereof to establish customer electricity rates to take effect in 2014 based upon a 2013 Test Year.
4. On November 10, 2014, Hydro filed an Amended General Rate Application (the Amended GRA), seeking approval of, amongst other items, the following:
 - (1) Hydro's 2014 Test Year Revenue Requirement of \$562,855,000;
 - (2) Hydro's 2015 Test Year Revenue Requirement of \$662,475,000; and
 - (3) A cost deferral in the amount of \$49.5 million to reduce Hydro's forecast 2014 net income deficiency.
5. Further, on November 12, 2015, Hydro filed an Amended 2015 Cost Deferral Application, seeking the deferral of \$60.5 million to reduce Hydro's forecast 2015 net income deficiency based on delayed implementation of rates resulting from its Amended GRA. In Order No. P.U.36(2015), the Board approved the deferral of \$30.2 million, as of December 31, 2015, with a final determination on recovery of this amount to be determined by a future order of the Board.

6. As part of its consideration of the Amended GRA, the Board undertook a prudence review of certain decisions and actions by Hydro related to certain projects and operating expenditures for which Hydro is seeking cost recovery from customers.

7. In Order No. P.U. 13(2016), the Board ordered, among other things, that Hydro will not recover capital or operating expenses in the 2014 Test Year revenue requirement and/or the 2015 Test Year costs associated with:
 - (1) Overhauls of the Sunnyside B1L03 and Holyrood B1L17 breakers associated with imprudence;
 - (2) The portion of the Sunnyside Terminal Station equipment repairs and replacement associated with imprudence;
 - (3) The Western Avalon T5 tap changer replacement and transformer repairs associated with imprudence;
 - (4) Extraordinary transformer and breaker repairs in 2014 and 2015 associated with imprudence;
 - (5) Additional supply costs associated with the 2014 failure of Holyrood breaker B1L17 and the resulting outage of Holyrood Unit 1 associated with imprudence;
 - (6) Certain expenses related to professional services-consulting fees, salary transfers, and overtime associated with imprudence and the Board's investigation into the January 2014 outages; and

- (7) The Holyrood Unit 1 turbine failure in 2013.
8. The Board further ordered that:
 - (1) Hydro will not recover in its 2014 Test Year revenue requirement, \$500,000 associated with its imprudence in managing black start capability at Holyrood;
 - (2) Hydro create a separate account into which will be transferred professional services-consulting fees, salary transfers and overtime costs for 2014, 2015 and subsequent years relating to Phase Two of the Board's investigation into the January 2014 outages, with the recovery of the costs to be addressed in a subsequent order of the Board following a further application by Hydro; and
 - (3) Hydro file in accordance with the subsequent direction of the Board, a revised 2014 Test Year revenue requirement and revenue deficiency calculation, a revised 2015 Test Year revenue requirement and revenue deficiency calculation, and supporting documentation reflecting the findings of the Board in Order No. P.U. 13(2016).
 9. On May 5, 2016, the Board provided further direction to Hydro and instructed Hydro to revise its 2014 revenue requirement and its 2015 test year revenue requirement to remove all capital and operating costs relating to any costs disallowed by the Board, costs related to the January 2013 outage, and Phase Two professional and salary costs, as set out in Order No. P.U. 13(2016).

10. The attached report to this Application, entitled “Prudence Review Compliance Report,” documents Hydro’s calculation of a revised 2014 revenue requirement and revenue deficiency and a revised 2015 test year revenue requirement and revenue deficiency, based on the proposals in the Amended GRA and incorporating the determinations of the Board in Order No. P.U. 13(2016) and subsequent direction of the Board in its correspondence dated May 5, 2016.

11. Based on the foregoing, Hydro requests:
 - (1) The Board make an order approving the Prudence Review Compliance Report as the filing required in Order No. P.U. 13(2016); and

 - (2) Upon hearing this Prudence Review Compliance Application, the Board grant any such alternative, additional and further relief as the Board shall consider fit and proper in the circumstances.

DATED AT St. John's in the Province of Newfoundland and Labrador this ^{25th} day of May,
2016.

NEWFOUNDLAND AND LABRADOR HYDRO



Tracey L. Pennell

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IN THE MATTER OF the *Public Utilities Act*, RSNL, 1990, Chapter P-47 (The "Act"); and

IN THE MATTER OF a General Rate Application (the Amended GRA) by Newfoundland and Labrador Hydro for approvals of, under Sections 70 and 75 of the *Act*, changes in the rates to be charged for the supply of power and energy to Newfoundland Power, Rural Customers and Industrial Customers; and under Section 71 of the *Act*, changes in the Rules and Regulations applicable to the supply of electricity to Rural Customers; and

IN THE MATTER OF a prudence review by the Board of Commissioners of Public Utilities of certain projects and expenditures of Newfoundland and Labrador Hydro; and

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

- i) revised 2014 revenue requirement and revenue deficiency calculation; and
- ii) revised 2015 test year revenue requirement and revenue deficiency calculation.

AFFIDAVIT

I, Carol Anne Lutz, Certified Professional Accountant, of St. John's in the Province of Newfoundland and Labrador, make oath and say as follows:

- 1. I am Controller, Newfoundland and Labrador Hydro, the Applicant named in the attached Application.
- 2. I have read and understand the foregoing Application.
- 3. I have personal knowledge of the facts contained therein, except where otherwise indicated, and they are true to the best of my knowledge, information and belief.

SWORN at St. John's in the)
Province of Newfoundland and)
Labrador, this 25th day of May)
2016, before me:)


Barrister - Newfoundland and Labrador


Carol Anne Lutz

(DRAFT ORDER)
NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AN ORDER OF THE BOARD

NO. P.U. __ (2016)

1 **IN THE MATTER OF** the *Public Utilities*
2 *Act*, RSNL, 1990, Chapter P-47 (The “*Act*”);
3 and

4
5 **IN THE MATTER OF** a General Rate
6 Application (the Amended GRA) by
7 Newfoundland and Labrador Hydro for
8 approvals of, under Sections 70 and 75 of
9 the *Act*, changes in the rates to be charged
10 for the supply of power and energy to
11 Newfoundland Power, Rural Customers and
12 Industrial Customers; and under Section 71
13 of the *Act*, changes in the Rules and
14 Regulations applicable to the supply of
15 electricity to Rural Customers; and

16
17 **IN THE MATTER OF** a prudence review
18 by the Board of Commissioners of Public
19 Utilities of certain projects and expenditures
20 of Newfoundland and Labrador Hydro; and

21
22 **IN THE MATTER OF** an application by
23 Newfoundland and Labrador Hydro for
24 approval of:
25 i) revised 2014 revenue requirement and
26 revenue deficiency calculation; and
27 ii) revised 2015 test year revenue
28 requirement and revenue deficiency
29 calculation.

30
31
32 **WHEREAS** the Applicant is a corporation continued and existing under the *Hydro*
33 *Corporation Act, 2007*, is a public utility within the meaning of the *Act* and is subject to
34 the provisions of the *Electrical Power Control Act, 1994*; and

35
36 **WHEREAS** under the *Act* the Board has the general supervision of public utilities and
37 requires that a public utility submit for the approval of the Board the rates, tolls and
38 charges for the service provided by the public utility and the rules and regulations which
39 relate to that service; and

40

1 **WHEREAS** on July 30, 2013, Hydro filed a General Rate Application together with
2 evidence in support thereof to establish customer electricity rates to take effect in 2014
3 based upon a 2013 Test Year; and
4

5 **WHEREAS** on November 10, 2014, Hydro filed an Amended General Rate Application
6 (the Amended GRA) together with evidence in support thereof to establish customer
7 electricity rates to take effect in 2015 based upon a 2015 Test Year.
8

9 **WHEREAS** as part of its consideration of the Amended GRA, the Board undertook a
10 prudence review of certain decisions and actions by Hydro related to projects and
11 operating expenditures reflected in the rate base, revenue requirement and revenue
12 deficiency for Hydro’s 2014 Test Year and 2015 Test Year; and
13

14 **WHEREAS** by Order No. P.U. 13(2016), the Board ordered that Hydro will not recover
15 certain capital or operating expenses in the 2014 Test Year revenue requirement and/or
16 the 2015 Test Year costs; and
17

18 **WHEREAS** the Board further ordered Hydro to file in accordance with the subsequent
19 direction of the Board a revised 2014 Test Year revenue requirement and revenue
20 deficiency calculation, a revised 2015 Test Year revenue requirement and revenue
21 deficiency calculation, and supporting documentation reflecting the findings of the Board
22 in Order No. P.U. 13(2016); and
23

24 **WHEREAS** on May 5, 2016, the Board provided subsequent direction to revise its 2014
25 revenue requirement and its 2015 test year revenue requirement to remove all capital and
26 operating costs relating to any costs disallowed by the Board, costs related to the January
27 2013 outage, and Phase Two professional and salary costs, as set out in Order No. P.U.
28 13(2016); and
29

30 **WHEREAS** on May 19, 2016, Hydro filed a Prudence Review Compliance Application,
31 which included a “Prudence Review Compliance Report” documenting Hydro’s
32 calculation of a revised 2014 Test Year revenue requirement and revenue deficiency and
33 a revised 2015 Test Year revenue requirement and revenue deficiency reflecting the
34 determinations of the Board in Order No. P.U. 13(2016) and the subsequent direction
35 provided by the Board on May 5, 2016; and
36

37 **WHEREAS** the Board is satisfied that the Prudence Review Compliance Report meets
38 the requirements for the filing directed in Order No. P.U. 13(2016).
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1 **IT IS THEREFORE ORDERED THAT:**
2

- 3 1. The Prudence Review Compliance Report is approved and accepted as the
4 filing required in Order No. P.U. 13(2016).
5
6 2. Hydro shall pay all costs and expenses of the Board incurred in connection
7 with this Application.
8
9

10 **DATED** at St. John's, Newfoundland and Labrador, this day of , 2016.
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IN THE MATTER OF the Public Utilities Act, RSNL, 1990, Chapter P-47 (The “Act”); and

IN THE MATTER OF a General Rate Application (the Amended GRA) by Newfoundland and Labrador Hydro for approvals of, under Sections 70 and 75 of the Act, changes in the rates to be charged for the supply of power and energy to Newfoundland Power, Rural Customers and Industrial Customers; and under Section 71 of the Act, changes in the Rules and Regulations applicable to the supply of electricity to Rural Customers; and

IN THE MATTER OF a prudence review by the Board of Commissioners of Public Utilities of certain projects and expenditures of Newfoundland and Labrador Hydro; and

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

- i) revised 2014 revenue requirement and revenue deficiency calculation; and
- ii) revised 2015 test year revenue requirement and revenue deficiency calculation.

Newfoundland and Labrador Hydro

Prudence Review Compliance Report

May 25, 2016



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1 **1 BACKGROUND**

2 On July 30, 2013 Newfoundland and Labrador Hydro (Hydro) filed its General Rate Application
3 (GRA) based upon a 2013 test year. On June 6, 2014, Hydro gave notice to the Board of
4 Commissioner of Public Utilities (the Board) and parties that it planned to file an amended
5 application in the Fall of 2014 based on updated financial information. On November 10, 2014,
6 Hydro filed its Amended General Rate Application (the Amended GRA) to establish customer
7 electricity rates to take effect in 2015 based upon a 2015 Test Year. Further, the Amended GRA
8 sought approval from the Board of Commissioners of Public Utilities (the Board) for Hydro to
9 recover \$49.5 million, representing the difference between Hydro’s forecast revenues from
10 existing rates for 2014 and Hydro’s forecast 2014 revenue requirement based on a 2014 Test
11 Year. Further, on November 12, 2015, Hydro also filed an Amended 2015 Cost Deferral
12 Application, amending its July 10, 2015 Cost Deferral Application, seeking the deferral of \$60.5
13 million to reduce its forecast 2015 net income deficiency based on delayed implementation of
14 rates resulting from its Amended GRA. In Order No. P.U. 36(2015), the Board approved a
15 deferral of \$30.2 million, as of December 31, 2015, with a final determination on recovery of
16 this amount to be determined by a future order of the Board.

17
18 As part of its consideration of Hydro’s Amended GRA, the Board undertook a prudence review
19 of certain decisions and actions by Hydro relating to projects and operating expenditures
20 reflected in the rate base, revenue requirement and revenue deficiency for Hydro’s 2014 Test
21 Year and 2015 Test Year.

22
23 In Order No. P.U. 13(2016), the Board ordered that, as a result of its prudence review, Hydro
24 would not be allowed to recover its capital or operating expenses areas associated with:

- 25 • Overhauls of the Sunnyside B1L03 and Holyrood B1L17 breakers;
- 26 • Sunnyside Terminal Station equipment repairs and replacement;
- 27 • Western Avalon T5 tap changer replacement and associated transformer repairs;
- 28 • Extraordinary transformer and breaker repairs;

- 1 • Additional supply costs associated with the 2014 failure of Holyrood breaker B1L17
2 and the resulting outage of Holyrood Thermal Generating Station (Holyrood) Unit 1;
- 3 • Certain expenses related to professional services-consulting fees, salary transfers,
4 and overtime associated with imprudence and the Board's investigation into the
5 January 2014 outages; and
- 6 • The Holyrood Unit 1 turbine failure in 2013.

7

8 The Board further ordered that Hydro would not be allowed to recover in the 2014 revenue
9 requirement \$500,000 associated with black start capability at Holyrood.

10

11 The Board also ordered Hydro to create a separate account for Hydro's professional services-
12 consulting fees, salary transfers and overtime costs for 2014, 2015 and subsequent years
13 relating to Phase Two of the Board's investigation into the January 2014 outages, with the
14 recovery of the costs to be addressed in a subsequent order of the Board following a further
15 application by Hydro.

16

17 Finally, Hydro was directed to file, in accordance with subsequent direction of the Board, i) a
18 revised 2014 revenue requirement and revenue deficiency calculation, ii) a revised 2015 test
19 year revenue requirement and revenue deficiency calculation, and iii) supporting
20 documentation reflecting the findings of the Board in Order P.U. 13(2016). By letter dated May
21 5, 2016, the Board directed Hydro to revise and file its 2014 revenue requirement and its 2015
22 test year revenue requirement to remove all capital and operating costs relating to any costs
23 disallowed by the Board, costs related to the January 2013 outage, and Phase Two professional
24 and salary costs, as set out in Order No. P.U. 13(2016).

25

26 This report documents Hydro's calculation of a revised 2014 revenue requirement and revenue
27 deficiency and a revised 2015 Test Year revenue requirement and revenue deficiency, based on
28 the proposals in the Amended GRA, and incorporating the determinations and instructions of
29 the Board in Order No. P.U. 13(2016) and its letter of May 5, 2016.

2 OVERVIEW

This evidence examines the impact of adjustments to Hydro's 2014 Test Year revenue requirement and Hydro's 2015 Test Year revenue requirement, and the consequent impacts on the 2014 and 2015 Test Year revenue deficiencies. In some instances, Order No. P.U. 13(2016) references figures based on actual costs. However, in order to calculate the impact of P.U. 13(2016) on Hydro's proposed revenue requirements, test year costs must be used, not actual costs incurred. As such, the figures presented in this report reflect test year data.

Taken together, the adjustments directed in Order No. P.U. 13(2016) affect three components of Hydro's test year revenue requirement: operating expenses, amortization and return on rate base (RORB). Not every adjustment affects every component. Also, while some adjustments affect revenue requirement components in both the 2014 Test Year and the 2015 Test Year, others do not. The total revenue requirement impact of Order No. P.U. 13(2016) is shown by Test Year in Table 1.

Table 1
Impact of P.U. 13(2016)

Line No.	Order Ref.	Particulars (\$000s)	2014 Test Year	2015 Test Year	Total
			Revenue Requirement Impact	Revenue Requirement Impact	Revenue Requirement Impact
1	1.1	Sunnyside & Holyrood Breakers	(24.4)	(105.6)	(130.0)
2	1.2	Sunnyside Terminal	(524.9)	(371.9)	(896.8)
3	1.3	Western Avalon	(55.0)	(138.4)	(193.4)
4	1.4	Extraordinary Maintenance	(903.0)	(75.0)	(978.0)
5	1.5	Supply Costs	(50.6)	(371.7)	(422.3)
6	1.6	January 2014 Outages - Professional Services	(2,801.1)	(854.0)	(3,655.1)
7	1.7	Unit 1	(1,138.6)	(1,070.3)	(2,208.9)
8	2	Black Start	(500.0)	-	(500.0)
9	3	Phase Two - Professional Services	(121.5)	(132.4)	(253.9)
10		Total	(6,119.1)	(3,119.3)	(9,238.4)

The attached Schedule 1 shows the impact of each of the adjustments directed in Order No. P.U. 13(2016) and their combined impact on Hydro's 2014 Test Year revenue deficiency and Hydro's 2015 Test Year revenue deficiency. The adjustments directed in Order No. P.U. 13(2016) reduce Hydro's 2014 Test Year revenue requirement and revenue deficiency by \$6.1

1 million. Before these adjustments, Hydro's 2014 Test Year revenue deficiency was \$45.9
2 million.¹ The adjustments directed in Order No. P.U. 13(2016) result in a 2014 revenue
3 deficiency of \$39.8 million.

4
5 In 2015, Hydro applied for the deferral of \$60.5 million to reduce its 2015 revenue deficiency
6 due to the delayed conclusion of Hydro's Amended GRA beyond the end of 2015. In Order No.
7 P.U. 36(2015), the Board approved the deferral of \$30.2 million with a final determination on
8 the recovery of this amount to be determined by further order of the Board. For 2015,
9 Schedule 1 of this report shows the approved deferral amount of \$30.2 million, consistent with
10 the Board's order. However, this does not represent Hydro's full return or corresponding
11 revenue deficiency for 2015, which Hydro anticipates will be addressed by the Board in its final
12 GRA order.

13
14 The adjustments directed in Order No. P.U. 13(2016) reduce Hydro's 2015 cost deferral by \$3.1
15 million. This results in a 2015 Test Year revenue requirement of \$659.4 million, and a 2015 cost
16 deferral of \$27.1 million.

17
18 Additionally, several of the disallowances require removing capital assets from rate base. In the
19 span of a year (and within a 12-month test year) the effect of excluding an asset from rate base
20 is measured by the foregone recovery of the depreciation of and RORB on that asset for that
21 year. The value of an excluded asset might seem large compared to the excluded depreciation
22 and RORB for that asset in a given year; however, the annual exclusion is imposed each year,
23 year after year, for the life of the excluded asset.

24 25 **3 IMPACT ANALYSIS BY CATEGORY**

26 The following provides an analysis reflecting the findings of the Board in Order No. P.U.
27 13(2016). The dollar figures reported in the item by item analysis are rounded to the nearest
28 \$100.

¹ Amended GRA, Finance Evidence, Schedule III, page 1.

3.1 Sunnyside B1L03 and Holyrood B1L17 Breakers

- *Hydro will not recover capital or operating expenses in the 2014 revenue requirement and/or the 2015 test year costs associated with . . . overhauls of the Sunnyside B1L03 and Holyrood B1L17 breakers associated with imprudence.*

These overhauls are capital projects, which Hydro recorded in late 2014.² In the Amended GRA, the 2014 Test Year revenue requirement included depreciation and RORB for both overhauls for the part-year beginning when these projects were recorded. In the Amended GRA, the 2015 Test Year revenue requirement included depreciation and RORB for both overhauls for the full year.

As shown in the attached Schedule 4, the Sunnyside B1L03 and Holyrood B1L17 Breakers adjustment reduces Hydro's 2014 Test Year revenue requirement by \$24,500 (\$6,100 in depreciation and \$18,400 in RORB). Further, the Sunnyside B1L03 and Holyrood B1L17 Breakers adjustment reduces Hydro's 2015 Test Year revenue requirement by \$105,600 (\$72,900 in depreciation and \$32,700 in RORB).

Of the \$24,500 reduction in Hydro's 2014 Test Year revenue requirement, \$7,600 relates to the overhaul of the Sunnyside B1L03 breaker and \$16,900 relates to the overhaul of the Holyrood B1L17 breaker. Of the \$105,600 reduction in Hydro's 2015 Test Year revenue requirement, \$32,600 relates to the overhaul of the Sunnyside B1L03 breaker and \$73,000 relates to the overhaul of the Holyrood B1L17 breaker.

3.2 Sunnyside Terminal Station

- *Hydro will not recover capital or operating expenses in the 2014 revenue requirement and/or the 2015 test year costs associated with . . . the portion of the Sunnyside Terminal Station equipment repairs and replacement associated with imprudence.*

² Order No. P.U. 13(2016), page 65, line 25.

1 The 2014 Test Year and the 2015 Test Year in the Amended GRA reflect the betterment
2 approach to asset replacement.³ In Order No. P.U. 13(2016), the Board determined the
3 betterment approach should not be used and directed Hydro recognize the new assets on a
4 depreciated basis at the time of the expected replacement date.⁴

5
6 Using the approach directed by the Board,⁵ the replacement of assets at Sunnyside Terminal
7 Station is recorded by establishing two regulatory assets. One of the regulatory assets is
8 recorded at the original assets' depreciated cost. This regulatory asset mimics the original asset
9 and is amortized over the expected remaining life of the original asset with return on the new
10 regulatory asset recoverable through Hydro's rates.⁶ The other regulatory asset is recorded at
11 the cost of the new replacement asset. During the expected remaining life of the original asset,
12 depreciation of the replacement asset regulatory asset must be recorded, but neither the
13 depreciation of this asset nor any return on this asset is eligible for recovery from customers.

14
15 To comply with the Board-directed alternative, the depreciation and RORB components of
16 Hydro's 2014 Test Year and 2015 Test Year revenue requirement must be decreased by the
17 amounts attributable to the replacement asset⁷ and increased by the corresponding amounts
18 for the regulatory deferral representing the original asset.

19
20 As shown in the attached Schedule 5, the Sunnyside Terminal Station adjustments reduce
21 Hydro's 2014 Test Year revenue requirement by \$524,900. The reduction comprises a decrease
22 in the RORB component of \$109,600 and an increase in depreciation of \$9,800. The Board-
23 directed approach also requires reversing the previously recorded loss on disposal to set up a
24 Regulatory Asset for the "replaced asset," resulting in a \$425,000 decrease in 2014 Test Year
25 operating expenses and revenue requirement.

³ Order No. P.U. 13(2016), page 62, lines 13 to 26.

⁴ Order No. P.U. 13(2016), page 63, line 43 to page 64, line 5.

⁵ Order No. P.U. 13(2016), page 63, line 43 to page 64, line 5.

⁶ Refer generally to Order No. P.U. 13(2016), page 64, lines 7-15; also see testimony of Mr. Antonuk, November 12, 2015 Transcript, page 151, line 1 to page 157, line 8.

⁷ These amounts will be recorded against "replacement" regulatory asset.

1 Further, the Sunnyside Terminal Station adjustment reduces Hydro's 2015 Test Year revenue
2 requirement by \$371,900, consisting of a \$277,600 net reduction in RORB and a \$94,300 net
3 decrease in depreciation.

4
5 As a result of this disallowance, Hydro's revenue requirement will exclude these amounts for
6 each of the next 22.4 years, the expected remaining life of the replaced asset, by amounts
7 similar to the 2015 Test Year reduction.

8

9 **3.3 Western Avalon T5 Tap Changer**

- 10 • *Hydro will not recover capital or operating expenses in the 2014 revenue*
11 *requirement and/or the 2015 test year costs associated with . . . the Western Avalon*
12 *T5 tap changer replacement and transformer repairs associated with imprudence.*

13

14 Typically, Hydro would have determined the revenue requirement impact of the Western
15 Avalon T5 Tap Changer adjustment using the same approach as the Sunnyside Terminal Station
16 adjustment. However, the replacement asset failed in 2015. As such, Hydro recorded the new
17 asset as a loss on disposal in its 2015 actual results.

18

19 In the interest of simplicity, Hydro performed the following:

- 20 • Exclusion of the "replacement" asset in the 2014 and 2015 Test Year;
- 21 • Did not reverse the loss on disposal of the replaced asset (\$28k) in the 2014 Test
22 Year;
- 23 • Did not set up the a regulatory asset of the replaced asset in the 2014 Test Year; and
- 24 • Recorded a full loss on disposal of the Western Avalon Tap Changer replacement
25 asset in Hydro's 2015 Actuals.

26

27 This approach results in no direct recovery of the 2014 Western Avalon Tap Changer
28 "replacement asset" from customers.

1 As shown in the attached Schedule 6, with the approach described above, the Western Avalon
2 T5 Tap Changer adjustment decreases Hydro's 2014 Test Year revenue requirement by \$55,000,
3 consisting of a \$3,400 decrease in depreciation and a \$51,600 decrease in RORB. This also
4 decreases Hydro's 2015 Test Year revenue requirement by \$138,400, consisting of a \$41,000
5 decrease in depreciation and a \$97,400 decrease in RORB.

7 **3.4 Extraordinary Transformer and Breaker Repairs**

- 8 • *Hydro will not recover capital or operating expenses in the 2014 revenue*
9 *requirement and/or the 2015 test year costs associated with . . . extraordinary*
10 *transformer and breaker repairs in 2014 and 2015 associated with imprudence.*

11
12 As shown in the attached Schedule 7, the adjustment for Extraordinary Transformer and
13 Breaker Repairs decreases Hydro's 2014 Test Year revenue requirement by \$903,000. The
14 reduction is based upon a reduction in Hydro's 2014 Test Year operating expenses. The
15 adjustment for Extraordinary Transformer and Breaker Repairs does not affect the depreciation
16 or RORB components of Hydro's 2014 Test Year revenue requirement.

17
18 As also shown in the attached Schedule 7, the adjustment for Extraordinary Transformer and
19 Breaker Repairs decreases Hydro's 2015 Test Year revenue requirement by \$75,000. This
20 reduction is primarily due to a decrease in the depreciation component of Hydro's 2015 Test
21 Year revenue requirement by \$249,000 and a decrease to the RORB component of Hydro's
22 2015 Test Year revenue requirement by \$34,000. This is partially mitigated by an increase in
23 Hydro's operating expenses of \$208,000.

24
25 With regard to the operating expenses component of Hydro's 2015 Test Year revenue
26 requirement, Liberty noted that any transformer maintenance amounts above \$411,870 in
27 2015 and any breaker maintenance in excess of \$398,021 would be associated with
28 imprudence. Order No. P.U. 13(2016) also provides that, "Since Hydro's decision to move to a
29 four-year maintenance cycle for air-blast circuit breakers as of 2015 was prudent, additional

1 costs associated with that decision are justified and will be allowed.”⁸ As a result of the allowed
2 additional costs, the adjustment for Extraordinary Transformer and Breaker Repairs increases
3 the operating expenses component of Hydro's 2015 Test Year revenue requirement by
4 \$208,000.

6 **3.5 Fuel Supply Deferral**

- 7 • *Hydro will not recover capital or operating expenses in the 2014 revenue*
8 *requirement and/or the 2015 test year costs associated with . . . additional supply*
9 *costs associated with the 2014 failure of Holyrood breaker B1L17 and the resulting*
10 *outage of Holyrood Unit 1 associated with imprudence.*

11
12 The Fuel Supply Deferral adjustment does not affect the depreciation component of Hydro's
13 2014 Test Year revenue requirement. As shown in the attached Schedule 8, this adjustment
14 decreases the RORB component of Hydro's 2014 Test Year revenue requirement by \$50,600,
15 consisting of \$31,900 related to breaker supply costs and \$18,700 attributable to the resulting
16 outage of Unit 1 at Holyrood during January 5-8, 2014.

17
18 As also shown in the attached Schedule 8, the Fuel Supply Deferral adjustment decreases the
19 depreciation component of Hydro's 2015 Test Year revenue requirement by \$284,400,
20 consisting of a \$179,200 decrease related to breaker supply costs and a \$105,200 decrease
21 related to Holyrood Unit 1 supply costs. The Fuel Supply Deferral adjustment also decreases
22 the RORB component of Hydro's 2015 Test Year revenue requirement by \$87,300, consisting of
23 \$55,000 decrease related to breaker supply costs and a \$32,300 decrease attributable to the
24 resulting outage of Unit 1 at Holyrood during January 5-8, 2014. to Holyrood Unit 1 vibration
25 related supply costs.

⁸ Order No. P.U. 13(2016), page 67, lines 20 to 23.

1 **3.6 Professional Services – Consulting Fees, Salary Transfers and Overtime**

2 **3.6.1 January 2014 Outages Investigation**

- 3 • *Hydro will not recover capital or operating expenses in the 2014 revenue*
4 *requirement and/or the 2015 test year costs associated with . . . certain expenses*
5 *related to professional services-consulting fees, salary transfers, and overtime*
6 *associated with imprudence and the Board's investigation into the January 2014*
7 *outages.*

8

9 As shown in the attached Schedule 9, this adjustment reduces the operating expenses
10 component of Hydro's 2014 Test Year revenue requirement by \$2,801,100, consisting of
11 \$386,000 in salary transfers, \$510,100 in incremental overtime and \$1,905,000 in professional
12 services/consulting fees.

13

14 As also shown in the attached Schedule 9, this adjustment reduces the operating expenses
15 component of Hydro's 2015 Test Year revenue requirement by \$854,000 in professional
16 services/consulting fees. Please refer to 'Section 3.6.3 Work Concerning Other Subjects' for
17 further discussion of the \$854,000 in professional services/consulting fees.

3.6.2 Work Concerning Phase Two Investigation

- *Hydro will create a separate account into which will be transferred professional services-consulting fees, salary transfers and overtime costs for 2014, 2015 and subsequent years relating to Phase Two of the Board's investigation into the January 2014 outages, with the recovery of the costs to be addressed in a subsequent order of the Board following a further application by Hydro.*

As ordered by the Board in Order P.U. No. 13(2016), recovery of amounts placed in this separate account will be addressed in a subsequent Board order following a further application by Hydro. This section of the evidence therefore is intended solely to identify the impact of these transfers on Hydro's 2014 Test Year revenue requirement and 2015 Test Year revenue requirement.

As shown in the attached Schedule 10, the Phase Two Deferral increases the RORB component of Hydro's 2014 Test Year revenue requirement by \$4,500 and increases the RORB component of Hydro's 2015 Test Year revenue requirement by \$13,600. As also shown in the attached Schedule 10, the Phase Two Deferral decreases the operating expenses component of Hydro's 2014 Test Year revenue requirement by \$126,000 and decreases the operating expenses component of Hydro's 2015 Test Year revenue requirement by \$146,000. Please refer to 'Section 3.6.3 Work Concerning Other Subjects' for further discussion of the \$146,000 in professional services/consulting fees.

3.6.3 Work Concerning Other Subjects

Hydro included \$1.0 million in its 2015 Test Year for "regulatory studies and filings."⁹ For the purposes of 2015, the "regulatory studies and filings" represented \$854,000 attributable to the January 2014 Outages investigations and \$146,000 attributable to Phase Two of the Board's investigation. As per Order No. P.U. 13 (2016), the costs associated with Phase One and Phase Two should be excluded in the calculation of Hydro's 2015 revenue deficiency. This is reflected

⁹ Amended GRA, Section 2: Regulated Activities, Page 2.40.

1 in Table 1. However, for future years, *e.g.*, 2016 and 2017, the \$1.0 million budgeted represents
2 other anticipated studies and hearings related to the preparation of the 2018 GRA such as
3 Hydro's Cost of Service Study and studies relating to Hydro's Rate Stabilization Plan. As these
4 future anticipated studies and hearings are required to be completed and do not relate to the
5 disallowance in question, Hydro submits that the \$1.0 million for should not be disallowed for
6 rate setting purposes in 2016.

8 **3.7 Holyrood Unit 1 Turbine Failure**

- 9 • *Hydro will not recover capital or operating expenses in the 2014 revenue*
10 *requirement and/or the 2015 test year costs associated with . . . Holyrood Unit 1*
11 *turbine failure in 2013.*

12
13 As shown in the attached Schedule 11, the Holyrood Unit 1 Turbine Failure adjustment
14 decreases the depreciation component of Hydro's 2014 Test Year revenue requirement by
15 \$781,600, and decreases the RORB component of Hydro's 2014 Test Year revenue requirement
16 by \$357,100.

17
18 As also shown in Schedule 11, this adjustment decreases the depreciation component of
19 Hydro's 2015 Test Year revenue requirement by \$781,600, and decreases the RORB component
20 of Hydro's 2014 Test Year revenue requirement by \$288,700.

22 **3.8 Holyrood Black Start**

- 23 • *Hydro will not recover in the 2014 revenue requirement \$500,000 associated with its*
24 *imprudence in managing black start capability at Holyrood.*

25
26 The attached Schedule 12 shows a reduction in the operating expenses component of Hydro's
27 2014 Test Year revenue requirement in the amount of \$500,000.

1 **4 CONCLUSION**

2 The Board directed Hydro to file, in accordance with the subsequent direction of the Board, a
3 revised 2014 Test Year revenue requirement and revenue deficiency calculation, a revised 2015
4 Test Year revenue requirement and revenue deficiency calculation, and supporting
5 documentation reflecting the findings of the Board in Order P.U. 13(2016). Hydro respectfully
6 submits that this report fulfills the Board's direction and that the Board should approve this
7 report as the filing required in Order No. P.U. 13(2016).

Line No.	Item	PUB Order Number	<u>2014 Cost Deferral</u>	<u>2015 Cost Deferral</u>	<u>Total</u>
			<i>P.U. 58(2014)</i>	<i>P.U. 36(2015)</i>	
1		Approved Deferral Amounts	45,900.0	30,200.0	76,100.0
		<i>Order No. P.U. 13(2016) Disallowances:</i>			
2	1.1	Sunnyside & Holyrood Breakers	(24.4)	(105.6)	(130.0)
3	1.2	Sunnyside Terminal	(524.9)	(371.9)	(896.8)
4	1.3	Western Avalon	(55.0)	(138.4)	(193.4)
5	1.4	Extraordinary Maintenance	(903.0)	(75.0)	(978.0)
6	1.5	Supply Costs	(50.6)	(371.7)	(422.3)
7	1.6	January 2014 Outages - Professional Services	(2,801.1)	(854.0)	(3,655.1)
8	1.7	Unit 1	(1,138.6)	(1,070.3)	(2,208.9)
9	2.0	Black Start	(500.0)	-	(500.0)
10	3.0	Phase Two - Professional Services	(121.5)	(132.4)	(253.9)
		Total Revenue Requirement Impact	(6,119.1)	(3,119.3)	(9,238.4)
11		Revised 2014 and 2015 Cost Deferrals	39,780.9	27,080.7	66,861.6

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Statement of Income and Retained Earnings
(\$000s)

Line No.	Particulars	2014	2014	2014	2015	2015	2015
		Original Test Year	P.U. 13(2016) Adjustments	Prudence Compliance	Original Test Year	P.U. 13(2016) Adjustments	Prudence Compliance
		(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (d) + (e)
1	Revenue						
2	Energy sales	514,599	-	514,599	659,967	-	659,967
3	Revenue deficiency	45,921	(6,119) <i>Sch 1</i>	39,802	-	(3,119) <i>Sch 1</i>	(3,119)
3	Other revenue	2,335	-	2,335	2,508	-	2,508
4	Total revenue	<u>562,855</u>	<u>(6,119)</u>	<u>556,736</u>	<u>662,475</u>	<u>(3,119)</u>	<u>659,356</u>
5	Expenses						
6	Operating expenses	126,068	(4,755) <i>14(b)</i>	121,313	138,179	(1,041) <i>14(h)</i> <i>+26(h)</i>	137,138
7	Other Income and expense	2,068	-	2,068	4,074	-	4,074
8	Fuels	201,714	-	201,714	267,820	(284) <i>26(h)</i>	267,536
9	Fuel supply deferral	(9,956)	-	(9,956)	1,991	-	1,991
10	Power purchases	66,668	-	66,668	63,254	-	63,254
11	Amortization	55,214	6 <i>17(b)</i> <i>+ 25(b)</i>	55,220	63,792	(135) <i>17(h)</i> <i>+ 25(h)</i>	63,657
12	Accretion of asset retirement obligation	852	-	852	878	-	878
13	Interest	89,723	-	89,723	89,255	-	89,255
14	Total expenses	<u>532,351</u>	<u>(4,749)</u>	<u>527,602</u>	<u>629,243</u>	<u>(1,461)</u>	<u>627,782</u>
15	Net income	<u>30,504</u>	<u>(1,370)</u>	<u>29,134</u>	<u>33,232</u>	<u>(1,658)</u>	<u>31,574</u>
16	Retained earnings						
17	Balance at beginning of year	231,383	-	231,383	261,887	-	261,887
18	Opening adjustment - retained earnings	-	-	-	-	-	-
19	Dividends	-	-	-	-	-	-
20	Balance at end of year	<u>261,887</u>	<u>(1,370)</u>	<u>260,517</u>	<u>295,119</u>	<u>(1,658)</u>	<u>293,461</u>
21	Contributed Capital	100,000	-	100,000	100,000	-	100,000
22	Total Retained Earnings	361,887	(1,370)	360,517	395,119	-	395,119
23	Prior Period Retained Earnings	331,383	-	331,383	361,887	1,370	363,257
24	Average Retained Earnings	<u>346,635</u>	<u>(685)</u>	<u>345,950</u>	<u>378,503</u>	<u>685</u>	<u>379,188</u>
25	Financial ROE	<u>8.8%</u>		<u>8.4%</u>	<u>8.8%</u>		<u>8.3%</u>

Newfoundland and Labrador Hydro
Financial Results and Forecasts
Rate of Return on Rate Base
(\$000s)

Line No.	Particulars	2014	2014	2014	2015	2015	2015
		Original Test Year (a)	P.U. 13(2016) Adjustments (b)	Prudence Compliance (c) = (a) + (b)	Original Test Year (d)	P.U. 13(2016) Adjustments (e)	Prudence Compliance (f) = (d) + (e)
1	Property, plant, and equipment	1,673,188	(5,372) 17(a)	1,667,816	1,889,482	(6,599) 17(g)	1,882,883
2	add: accumulated depreciation	193,532	13 17(c)	193,545	203,834	167 17(i)	204,001
3	add: contributions in aid of construction	16,550	-	16,550	17,936	-	17,936
5	less: work in progress	(42,950)	-	(42,950)	(240,977)	-	(240,977)
6	Capital assets in service	<u>1,840,320</u>	<u>(5,359)</u>	<u>1,834,961</u>	<u>1,870,275</u>	<u>(6,432)</u>	<u>1,863,843</u>
7	less: asset retirement obligation	(14,442)	-	(14,442)	(12,169)	-	(12,169)
8	less: contributions in aid of construction	(16,550)	-	(16,550)	(17,936)	-	(17,936)
9	less: accumulated depreciation	(193,532)	-	(193,532)	(203,834)	-	(203,834)
10	Capital assets - current year	<u>1,615,796</u>	<u>(5,359)</u>	<u>1,610,437</u>	<u>1,636,336</u>	<u>(6,432)</u>	<u>1,629,904</u>
11	Capital assets - previous year	<u>1,432,533</u>	<u>-</u>	<u>1,432,533</u>	<u>1,615,796</u>	<u>(5,359)</u>	<u>1,610,437</u>
12	Unadjusted capital assets - average	1,524,165	(2,680)	1,521,485	1,626,066	(5,896)	1,620,170
13	less: Average net assets not in use	(2,941)	(5,273) 21(e)	(8,214)	(2,605)	(4,713) 21(k)	(7,318)
14	Capital assets - average	<u>1,521,224</u>	<u>(7,953)</u>	<u>1,513,271</u>	<u>1,623,461</u>	<u>(10,609)</u>	<u>1,612,852</u>
15	Cash working capital allowance	9,207	-	9,207	7,037	-	7,037
16	Fuel	65,110	-	65,110	66,633	-	66,633
17	Materials and supplies	25,823	-	25,823	27,402	-	27,402
18	Deferred charges	71,203	1,723 32(e)	72,926	77,491	3,289 32(k)	80,780
19	less: Deferred Charges not in use	-	(1,955) 31(e)	(1,955)	-	(4,467) 31(k)	(4,467)
20	Average rate base	<u>1,692,567</u>	<u>(8,185)</u>	<u>1,684,381</u>	<u>1,802,023</u>	<u>(11,786)</u>	<u>1,790,237</u>
21	Unadjusted return on regulated equity	30,504	(1,370)	29,134	33,232	(1,658)	31,574
22	add: Cost of service exclusions	336	788 21(b)	1,124	323	854 21(m)	1,177
23	Interest	89,723	-	89,723	89,255	-	89,255
24	Return on rate base	<u>120,563</u>	<u>(583)</u>	<u>119,980</u>	<u>122,810</u>	<u>(804)</u>	<u>122,006</u>
25	Rate of return on rate base	<u>7.12%</u>	<u>7.12%</u>	<u>7.12%</u>	<u>6.82%</u>	<u>6.82%</u>	<u>6.82%</u>

Newfoundland and Labrador Hydro
Compliance Adjustment Summary Leadsheet

Line No.	Board Order Reference	Particulars (\$000's)	2014 Test Year						2015 Test Year					
			(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		Operating Cost Adjustments												
1	1.2	Sunnyside Terminal - Operating Costs ¹		833					-					
2	1.2	Sunnyside Terminal - Loss on Disposal ¹		425					-					
3	1.2	Sunnyside Terminal - Insurance: allocated against Operating and Loss ¹		(1,258)					-					
4	1.2	Reverse Sunnyside Loss on Disposal - Set up New Regulatory Asset		425										
5	1.4	Extraordinary Maintenance		903					(208)					
6	2.0	Holyrood Black Start		500					-					
7	1.6	Salary Transfers		386					-					
8	1.6	Incremental Overtime		510					-					
9	1.6	January 2014 Outages - Professional Services - Legal		623					291					
10	1.6	January 2014 Outages - Professional Services - Board Outage Inquiry Costs		958					447					
11	1.6	January 2014 Outages - Professional Services - Intervenor Outage Inquiry Costs		250					117					
12	3.0	Phase Two Deferral - Professional Services		126					146					
13	1.6	January 2014 Outages - Professional Services - Event Engineering		74					-					
14		Operating Costs		4,755					792					

Line No.	Board Order Reference	Particulars (\$000's)	2014 Test Year						2015 Test Year					
			Cost (a)	Depreciation (b)	Accumulated Amortization (c)	Net Book Value (d)	Average Rate Base (e)	Return on Rate Base (f)	Cost (g)	Depreciation (h)	Accumulated Amortization (i)	Net Book Value (j)	Average Rate Base (k)	Return on Rate Base (l)
		Capital - Transferred to Regulatory Assets or Retired:												
15	1.3	Western Avalon Tap Changer (Retired)	1,453	3	3	1,449	725	52	1,453	41	44	1,409	1,429	97
16	1.2	Sunnyside Terminal (Transfer to Regulatory Assets)	3,919	9	9	3,910	1,955	139	5,146	113	123	5,023	4,467	305
17		Total Transfer of Capital Assets to Regulatory Assets or Retired	5,372	13	13	5,359	2,680	191	6,599	154	167	6,432	5,896	402
18	1.1	Sunnyside Breaker	161	2	2	159	80	6	161	22	24	137	148	10
19	1.1	Holyrood Breaker	361	4	4	357	179	13	361	50	55	307	332	23
20	1.7	Unit I Turbine Failure	5,601	782	977	4,624	5,015	357	5,601	782	1,759	3,843	4,233	289
21		Total Assets Excluded from Rate Base (Assets not in service)	6,123	788	983	5,140	5,273	375	6,123	854	1,837	4,286	4,713	321
23	1.2	Sunnyside Terminal Deferral - In Service	(425)	(19)	(19)	(406)	(416)	(30)	(425)	(19)	(38)	(387)	(401)	(27)
24	3.0	Phase Two Deferral	(126)	-	-	(126)	(63)	(4)	(272)	-	-	(272)	(199)	(14)
25		New Regulatory Deferrals Included in Rate Base	(551)	(19)	(19)	(532)	(479)	(34)	(697)	(19)	(38)	(659)	(600)	(41)
26	1.4	Extraordinary Maintenance	-	-	-	-	-	-	1,245	249	249	996	498	34
27	1.5	Fuel Supply Deferral - Period disallowance & vibration/fuel	1,422	-	-	1,422	711	51	1,422	284	284	1,138	1,280	87
28		Impairment of Original Regulatory Deferrals	1,422	-	-	1,422	711	51	2,667	533	533	2,134	1,778	121
30	1.2	Sunnyside Terminal Deferral - Asset Not in Service	(3,919)	(9)	(9)	(3,910)	(1,955)	-	(5,146)	(113)	(123)	(5,023)	(4,467)	-
31		Total Regulatory Assets Excluded from Rate Base	(3,919)	(9)	(9)	(3,910)	(1,955)	-	(5,146)	(113)	(123)	(5,023)	(4,467)	-
32		Total Regulatory Assets (Sum of Lines 25, 28, 31)	(3,048)	(28)	(28)	(3,020)	(1,723)	17	(3,176)	401	373	(3,549)	(3,289)	80

¹ The net impact of the Sunnyside Terminal Station operating costs, loss on disposal and insurance was \$nil in the Test Year.

**Newfoundland and Labrador Hydro
Prudence Compliance Filing
Sunnyside B1L03 & Holyrood B1L17**

Order No. P.U. 13(2016), item 1.1 states:

"It is therefore ordered that Hydro will not recover capital or operating expenses in the 2014 revenue requirement and/or the 2015 test year costs associated with... Overhauls of the Sunnyside B1L03 and Holyrood B1L17 breakers associated with imprudence."

The amount to be disallowed from Hydro's originally filed Amended Test Year, as a result of this portion of Order No. P.U. 13(2016) is **detailed below**. As a result, the following assets have been included in "Assets not in Service"

Table 1 - 2014 Test Year Disallowance

Line No.	Particulars (\$000's)	2014 Test Year <i>Sunnyside B1L03</i>	2014 Test Year <i>Holyrood B1L17</i>	2014 Test Year <i>Total Impact</i>
<u>Capital/Deferred Asset</u>				
1	Original Cost	160.9	361.3	
2	Depreciation	1.9	4.2	6.1
3	Accumulated Amortization	1.9	4.2	
4	Net Book Value	159.0	357.1	
5	Average Rate Base	79.5	178.6	
6	Return on Rate Base	5.7	12.7	18.4
<u>Operating</u>				
7	Operating Expenses	-	-	-
8	Total Revenue Requirement Disallowance	7.6	16.9	24.5

Table 2 - 2015 Test Year Disallowance

Line No.	Particulars (\$000's)	2015 Test Year <i>Sunnyside B1L03</i>	2015 Test Year <i>Holyrood B1L17</i>	2015 Test Year <i>Total Impact</i>
<u>Capital/Deferred Asset</u>				
1	Original Cost	160.9	361.3	
2	Depreciation	22.5	50.4	72.9
3	Accumulated Amortization	24.3	54.6	
4	Net Book Value	136.6	306.7	
5	Average Rate Base	147.8	331.9	
6	Return on Rate Base	10.1	22.6	32.7
<u>Operating</u>				
7	Operating Expenses	-	-	-
8	Total Revenue Requirement Disallowance	32.6	73.0	105.6

Newfoundland and Labrador Hydro
Prudence Compliance Filing
Sunnyside Terminal Station

Order No. P.U. 13(2016), item 1.2 states:

"It is therefore ordered that Hydro will not recover capital or operating expenses in the 2014 revenue requirement and/or the 2015 test year costs associated with... The portion of the Sunnyside Terminal Station equipment repairs and replacement associated with imprudence."

The amount to be disallowed from Hydro's originally filed Amended Test Year, as a result of this portion of Order No. P.U. 13(2016)

Table 1 - 2014 Test Year Disallowance

Line No.	Particulars (\$000's)	2014 Test Year <i>Sunnyside Terminal: Transfer from Capital to Regulatory</i>	2014 Test Year <i>Sunnyside Terminal: Deferral of 'Old Asset'</i>	2014 Test Year <i>Total Impact</i>	2014 Test Year <i>Sunnyside Terminal Deferral ¹</i>
	<u>Capital/Deferred Asset</u>				
1	Original Cost	3,919.4	(425.0)		(3,919.4)
2	Depreciation	9.2	(19.0)	(9.8)	(9.2)
3	Accumulated Amortization	9.2	(19.0)		(9.2)
4	Net Book Value	3,910.2	(406.0)		(3,910.2)
5	Average Rate Base	1,955.1	(415.5)		(1,955.1)
6	Return on Rate Base	139.2	(29.6)	109.6	-
	<u>Operating</u>				
	Operating Expenses:				
7	Operating Costs ²	833	-		
8	Loss on Disposal ²	425	-		
9	Insurance ²	(1,258)	-		
10	Reverse Sunnyside Loss on Disposal	-	425.0	425.0	-
11	Total Revenue Requirement Disallowance	148.4	376.5	524.9	

¹ Asset not in service in the 2014/2015 Test Years. Excluded from rate base.

² The net impact of the Sunnyside Terminal Station operating costs, loss on disposal and insurance was \$null in the Test Year.

Table 2 - 2015 Test Year Disallowance

Line No.	Particulars (\$000's)	2015 Test Year <i>Sunnyside Terminal Capital</i>	2015 Test Year <i>Sunnyside Terminal Deferral</i>	2015 Test Year <i>Total Impact</i>	2015 Test Year <i>Sunnyside Terminal Deferral</i> ¹
<u>Capital/Deferred Asset</u>					
1	Original Cost	5,145.8	(425.0)		(5,145.8)
2	Depreciation	113.3	(19.0)	94.3	(113.3)
3	Accumulated Amortization	122.5	(37.9)		(122.5)
4	Net Book Value	5,023.3	(387.1)		(5,023.3)
5	Average Rate Base	4,466.7	(396.6)		(4,466.7)
6	Return on Rate Base	304.6	(27.0)	277.6	(304.6)
<u>Operating</u>					
7	Operating Expenses	-	-	-	-
8	Total Revenue Requirement Disallowance	417.9	(46.0)	371.9	

¹ Asset not in service in the 2014/2015 Test Years. Excluded from rate base.

Note: As per guidance provided on November 12th, 2015 on pages 151-157, Hydro recorded Sunnyside Terminal Stations as the following:

- (i) Transferred the 'replacement' asset from Capital Assets to Regulatory Assets 'Not in Service'.
- (ii) Excluded the depreciation of the Regulatory Assets Not in Service from Revenue Requirement.
- (iii) Reversed the loss on disposal of the 'replaced' asset in 2014.
- (iv) Set up the 'replaced' asset as a Regulatory Asset to depreciate over a 22.4 year remaining life.

Newfoundland and Labrador Hydro
Prudence Compliance Filing
Western Avalon T5 Tap Changer

Order No. P.U. 13(2016), item 1.3 states:

“It is therefore ordered that Hydro will not recover capital or operating expenses in the 2014 revenue requirement and/or the 2015 test year costs associated with... the Western Avalon T5 tap changer replacement and transformer repairs associated with imprudence.”

The amount to be disallowed from Hydro's originally filed Amended Test Year, as a result

Table 1 - 2014/2015 Test Year Disallowances

Line No.	Particulars (\$000's)	2014 Test Year <i>Western Avalon Tap Changer Capital</i>	2015 Test Year <i>Western Avalon Tap Changer Capital</i>
	<u>Capital / Deferred Asset</u>		
1	Original Cost	1,452.5	1,453.0
2	Depreciation	3.4	41.0
3	Accumulated Amortization	3.4	44.4
4	Net Book Value	1,449.1	1,408.6
5	Average Rate Base	724.5	1,428.8
6	Return on Rate Base	51.6	97.4
	<u>Operating</u>		
7	Operating Expenses	-	-
8	Total Revenue Requirement Disallowance	55.0	138.4

Note: Due to the failure of the 'replacement' Western Avalon Tap Changer in 2015 Actuals Hydro recorded the 'replacement' asset as a loss on disposal in the 2015 actuals. As a result, for simplicity Hydro performed the following:

- (i) Excluded the 'replacement' asset in the 2014 and 2015 Test Year.
- (ii) Did not reverse the loss on disposal of the 'replaced' asset (\$28k) in the 2014 Test Year.
- (ii) Did not set up the a regulatory asset of the 'replaced' asset in the 2014 Test Year.
- (iv) Recorded a full loss on disposal of the Western Avalon Tap Changer in 2015.

Actuals. Results in no direct recovery of the 2014 Asset from ratepayers.

**Newfoundland and Labrador Hydro
Prudence Compliance Filing
Extraordinary Maintenance**

Order No. P.U. 13(2016), item 1.4 states:

“It is therefore ordered that Hydro will not recover capital or operating expenses in the 2014 revenue requirement and/or the 2015 test year costs associated with... extraordinary transformer and breaker repairs in 2014 and 2015 associated with imprudence.”

The amount to be disallowed from Hydro's originally filed Amended Test Year, as a result of this portion of Order No. P.U. 13(2016) is detailed below:

Table 1 - 2014/2015 Test Year Disallowances

Line No.	Particulars (\$000's)	2014 Test Year <i>Extraordinary Breaker Repairs</i>	2015 Test Year <i>Extraordinary Breaker Repairs</i>
	<u>Capital/Deferred Asset</u>		
1	Original Cost	-	1,245.0
2	Depreciation	-	249.0
3	Accumulated Amortization	-	249.0
4	Net Book Value	-	996.0
5	Average Rate Base	-	498.0
6	Return on Rate Base	-	34.0
	<u>Operating</u>		
7	Operating Expenses - Extraordinary Maintenance	903.0	(208.0)
8	Total Revenue Requirement Disallowance	903.0	75.0

Newfoundland and Labrador Hydro
Prudence Compliance Filing
Fuel Supply Deferral

Order No. P.U. 13(2016), item 1.5 states:

“It is therefore ordered that Hydro will not recover capital or operating expenses in the 2014 revenue requirement and/or the 2015 test year costs associated with... additional supply costs associated with the 2014 failure of Holyrood breaker B1L17 and the resulting outage of Holyrood Unit 1 associated with imprudence.”

The amount to be disallowed from Hydro's originally filed Amended Test Year, as a result of this portion of Order No. P.U. 13(2016) is detailed below:

Table 1 - 2014 Test Year Disallowance

Line No.	Particulars (\$000's)	2014 Test Year <i>Breaker Supply Costs</i>	2014 Test Year <i>Unit 1 - Vibration Supply Costs</i>	2014 Test Year <i>Total Impact</i>
<u>Capital/Deferred Asset</u>				
1	Original Cost	896.0	526.0	
2	Depreciation	-	-	-
3	Accumulated Amortization	-	-	
4	Net Book Value	896.0	526.0	
5	Average Rate Base	448.0	263.0	
6	Return on Rate Base	31.9	18.7	50.6
<u>Operating</u>				
7	Operating Expenses - Extraordinary Maintenance	-	-	-
8	Total Revenue Requirement Disallowance	31.9	18.7	50.6

Table 2 - 2015 Test Year Disallowance

Line No.	Particulars (\$000's)	2015 Test Year <i>Breaker Supply Costs</i>	2015 Test Year <i>Unit 1 Supply Costs</i>	2015 Test Year <i>Total Impact</i>
<u>Capital/Deferred Asset</u>				
1	Original Cost	896.0	526.0	
2	Depreciation	179.2	105.2	284.4
3	Accumulated Amortization	179.2	105.2	
4	Net Book Value	716.8	420.8	
5	Average Rate Base	806.4	473.4	
6	Return on Rate Base	55.0	32.3	87.3
<u>Operating</u>				
7	Operating Expenses - Extraordinary Maintenance	-	-	-
8	Total Revenue Requirement Disallowance	234.2	137.5	371.7

**Newfoundland and Labrador Hydro
Prudence Compliance Filing
January 2014 Outages - Professional Services**

Order No. P.U. 13(2016), item 1.6 states:

“It is therefore ordered that Hydro will not recover capital or operating expenses in the 2014 revenue requirement and/or the 2015 test year costs associated with... certain expenses related to professional services-consulting fees, salary transfers, and overtime associated with imprudence and the Board's investigation into the January 2014 outages.”

The amount to be disallowed from Hydro's originally filed Amended Test Year, as a result of this portion of Order No. P.U. 13(2016) is detailed below:

Line No.	Particulars (\$000's)	2014 Test Year <i>Disallowed Expenses</i>	2015 Test Year <i>Disallowed Expenses</i>
	<u>Operating</u>		
1	Salary Transfers	386.0	-
2	Incremental Overtime	510.1	-
3	Professional Services/Consultant Fees - Legal	623.0	290.6
4	Professional Services/Consultant Fees - Board Outage Inquiry Costs	958.0	446.8
5	Professional Services/Consultant Fees - Intervenor Outage Inquiry Costs	250.0	116.6
6	Professional Services/Consultant Fees - Event Engineering	74.0	-
7	Total Revenue Requirement Disallowance	2,801.1	854.0

**Newfoundland and Labrador Hydro
Prudence Compliance Filing
Phase Two Investigation - Professional Services**

Order No. P.U. 13(2016), item 3 states:

Hydro will create a separate account into which will be transferred professional services-consulting fees, salary transfers and overtime costs for 2014, 2015 and subsequent years relating to Phase Two of the Board's investigation into the January 2014 outages, with the recovery of the costs to be addressed in a subsequent order of the Board following a further application by Hydro.

The amount to be disallowed from Hydro's originally filed Amended Test Year, as a result of this portion of Order No. P.U. 13(2016) is detailed below:

Line No.	Particulars (\$000's)	2014 Test Year <i>Phase II Deferral</i>	2015 Test Year <i>Phase II Deferral</i>
	<u>Capital / Deferred Asset</u>		
1	Original Cost	(126.0)	(272.0)
2	Depreciation	-	-
3	Accumulated Amortization	-	-
4	Net Book Value	(126.0)	(272.0)
5	Average Rate Base	(63.0)	(199.0)
6	Return on Rate Base	(4.5)	(13.6)
	<u>Operating</u>		
7	Operating Expenses - Phase Two Deferral	126.0	146.0
8	Total Revenue Requirement Disallowance	121.5	132.4

Newfoundland and Labrador Hydro
Prudence Compliance Filing
Unit 1 Turbine Failure

Order No. P.U. 13(2016), item 1.7 states:

“It is therefore ordered that Hydro will not recover capital or operating expenses in the 2014 revenue requirement and/or the 2015 test year costs associated with... Holyrood Unit 1 turbine failure in 2013.”

The amount to be disallowed from Hydro's originally filed Amended Test Year, as a result of this portion of Order No. P.U. 13(2016) is detailed below:

Line No.	Particulars (\$000's)	2014 Test Year <i>Unit 1</i>	2015 Test Year <i>Unit 1</i>
	<u>Capital / Deferred Asset</u>		
1	Original Cost	5,601.2	5,601.2
2	Depreciation	781.6	781.6
3	Accumulated Amortization	977.0	1,758.5
4	Net Book Value	4,624.2	3,842.7
5	Average Rate Base	5,015.1	4,233.5
6	Return on Rate Base	357.1	288.7
	<u>Operating</u>		
7	Operating Expenses	-	-
8	Total Revenue Requirement Disallowance	1,138.6	1,070.3

Newfoundland and Labrador Hydro
Prudence Compliance Filing
Holyrood Black Start

Order No. P.U. 13(2016), item 2 states:

"Hydro will not recover in the 2014 revenue requirement \$500,000 associated with its imprudence in managing black start capability at Holyrood."

The amount to be disallowed from Hydro's originally filed Amended Test Year, as a result of this portion of Order No. P.U. 13(2016) is detailed below:

Line No.	Particulars (\$000's)	2014 Test Year <i>Disallowance</i>	2015 Test Year <i>Disallowance</i>
	<u>Operating</u>		
1	Holyrood Black Start	500.0	-
2	Total Revenue Requirement Disallowance	500.0	-