

NEWFOUNDLAND POWER'S 2013 CAPITAL BUDGET APPLICATION

SUBMISSIONS OF THE CONSUMER ADVOCATE

THE CONSUMER ADVOCATE

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In last year's Capital Plan, Newfoundland Power, (the Company), projected capital spending for the 2012-2016 period as follows:

| Projected Capital Budget (\$000) | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|--------|--------|--------|--------|--------|
| | 77,293 | 79,611 | 88,086 | 86,397 | 85,176 |

In this year's Capital Plan the Company projects capital spending for the 2013-2017 period as follows:

| Projected Capital Budget (\$000) | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|--------|--------|--------|--------|--------|
| | 80,788 | 83,218 | 91,358 | 86,946 | 89,479 |

The Company's amount of capital expenditure for the next 5 years will average approximately \$86 million.

The Capital Plan with the 2013 Capital Budget contains 37 projects totaling \$80.8 million. The Capital Budget considered in terms of origin or root cause attributes 48% of the proposed 2013 capital expenditure to the replacement of plant. A further 33% is attributed to customer/load growth. The remaining 14% of the forecast capital expenditure for 2013 relate to information systems, capitalized general expenses, third party requirements and financial carrying costs.

In last year's Capital Budget Order (No P.U. 26 (2011)) the Board stated that it shared the Consumer Advocate's concerns about the increasing levels of planned capital for both utilities.

While not accepting the Consumer Advocate's request that Newfoundland Power be directed to rank projects with respect to criticality, the Board stated that "it may be timely to review the Capital Budget numbers with a view to incorporating experience and feedback in relation to recent Capital Budget applications by both utilities." The Consumer Advocate would welcome this review as soon as the regulatory calendar may allow.

While the Consumer Advocate is not providing comments on all proposed projects in the Company's 2013 Capital Budget Application, this should not be taken as an implicit endorsement of all projects.

The Consumer Advocate has particular concerns with the following projects:

1. Customer Service Systems Enhancements (Tab 7)
A: Customer Call Back Technology (3.1)
B: Group Billing Enhancements (3.2)
2. 2013 Company Building Renovations (Tab 5.1)
3. Soldiers Pond Outlet (Tab 1.1)

In the context of legitimate concerns about the increasing levels of planned capital expenditures of the utilities, these projects for the reasons hereinafter set out do not appear to be justified.

Customer Service Systems Enhancements (Tab 7)

A: Customer Call Back Technology (3.1) (\$170,000)

The Customer Call Back Technology is forecast to cost \$170,000.00. This virtual hold system would allow customers to either hold or receive a call back within a specified time. One would assume that if there are numerous calls, the specified return call time would be longer.

The Consumer Advocate questions whether this technology will "reduce the Company's overall requirement for temporary labour". In the event of outages, as cited by the Company, the call volume is higher. Customers using the virtual hold system will expect a call back within the specified time to speak with an agent. High stress situations will still require agents to be available to address these calls, or presumably the return call to the customer could be scheduled for hours later.

In response to CA NP 069, the Company outlines that the current system does not log

Customer complaints and as such, we have no information as to whether complaints based on wait time even exist. Yet one of the proffered justifications for this proposed project is to increase customer service and satisfaction.

The Consumer Advocate submits this is an expense which is not justifiable without evidence of complaints from customers utilizing the current hold system. The Company outlines that customers are contacting them by other means more frequently, including internet, and smart phones. Given same, there seems little need for virtual hold to be implemented at this stage at this cost to customers.

B: Group Billing Enhancements (3.2)

Similarly, the Company proposes Group Billing Enhancements at a cost of \$116,000.00. This would be aimed primarily at 12% of the company's customers (CA NP 070). The proposed system would, according to the Company, reduce manual efforts by staff.

However, in response to CA NP 071 and 073, the Company outlines that the current system meets the requirements of customers, and only "occasionally" does the current system not meet requests, despite being 20 years old. Revisions may be required on some billings when the full amount is not received, an account is closed, etc., but these are not monthly occurrences from the information provided.

The Consumer Advocate submits that if the current system is working with little issue, there is no need to move to an automated service at this time. While the amount of money paid by these customers is significant (approx. \$58,000,000.00), the fact remains that the current system is working for those customers with multiple accounts with no complaint. It does not appear to be the case that staff must expend "significant effort on a daily basis" to address any changes. The billing system is preferred by the customers as it currently exists, and there seems little basis for expending such a forecasted amount at this time.

2013 Company Building Renovations (Tab 5.1)

The Company proposes to spend \$475,000.00 to renovate its Kenmount Road Office. In response to CA NP 060, the Company detailed that the costs associated with renovations for the eight (8) washrooms is \$134,000.00, or \$16,750.00 per washroom.

Further, while the finishing for the washrooms may be dated, it appears from the Company's response to CA NP 061 that the main issue, other than cosmetic, is the plumbing and ventilation, which is said to require upgrading.

No details as to the updating required to the plumbing and ventilation have been provided, and the urgency of same was not outlined in their Capital Budget Application. There is no evidence that the bathroom facilities are not functional. While the Consumer Advocate agrees that issues relating to the plumbing and ventilation are difficult to demonstrate through photographs, if same are in need of repair, one would expect some explanation as to the issues with the existing plumbing and ventilation in place and whether the entire systems, or portions only, require upgrades. For example, are there leaks? What is the issue with the current ventilation system?

The Company does not have maintenance records for the Kenmount Road washrooms as requested in CA NP 062. As such, the Consumer Advocate is unable to determine whether the plumbing and ventilation at the Kenmount Road location has been an issue in the past.

For the most part, it appears from the information provided that the majority of the \$134,000.00 being sought by the Company is for cosmetic renovations. In the context of an ever increasing capital budget, in the absence of evidence that there is a functional problem with the washroom facilities, this project should not be allowed. This is a significant expense given that we have no information on the issues with the plumbing and ventilation, or what portion those items entail in the total cost.

Soldiers Pond Outlet Tab 1.1

Newfoundland Power seeks approval of \$285,000 to replace the existing timber outlet structure and the gabion wing walls.

There is no evidence that the existing timber outlet structure is deteriorated. The Consumer Advocate therefore questions the need for its replacement at this time.

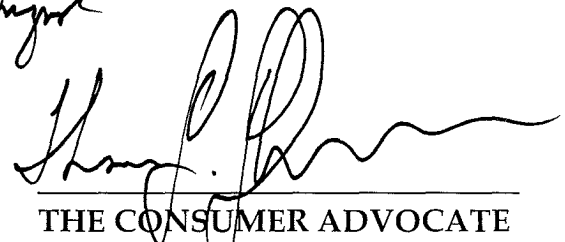
On the other hand, there is evidence that the lower sectors of the gabion wing walls have

corroded and are losing ballast. These gabions were installed in 1993 (CA NP 023). They are normally expected to last 40 years, but in this case survived just one half of the expected lifespan. It would appear from the photo and reply provided in CA NP 023 that the gabion baskets corroded below the water line.

In this case then we have a situation where customers are being put to a significant expense in relation to this structure some 20 years before it was anticipated.

In light of this fact, only work that is necessary to make the structure operational should be approved. Accordingly, work and expenditures in relation to the existing timber outlet structure should not be approved.

RESPECTFULLY SUBMITTED AND DATED at St. John's, in the Province of Newfoundland and Labrador, this *27th* day of *August*



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