

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

AN ORDER OF THE BOARD

NO. P.U. 27(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 Power Inc. for an Order pursuant to Sections 41 and 78 of the *Act*:

- (a) approving its 2014 Capital Budget of \$84,462,000; and
- (b) fixing and determining its average rate base for 2012 in the amount of \$883,045,000.

BEFORE:

Andy Wells
Chair & Chief Executive Officer

Darlene Whalen, P. Eng
Vice-Chair

Dwanda Newman, LL.B
Commissioner

James Oxford
Commissioner

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1 **I BACKGROUND**

2
3 **1. The Application**

4
5 Newfoundland Power Inc. (“Newfoundland Power”) filed its 2014 Capital Budget Application
6 (the “Application”) with the Board of Commissioners of Public Utilities (the “Board”) on June
7 28, 2013. In the Application Newfoundland Power requests that the Board make an Order:

- 8
9 a) approving Newfoundland Power’s purchase and construction in 2014 of the
10 improvements and additions to its property in the amount of \$84,462,000; and
11 b) fixing and determining Newfoundland Power’s average rate base for 2012 in the amount
12 of \$883,045,000.

13
14 In accordance with the legislation, regulations and Board guidelines the Application includes a
15 detailed explanation of each proposed expenditure, setting out a description, justification, costing
16 methodology and future commitments, if applicable. Additional studies and reports, including
17 detailed engineering reports, are provided in relation to a number of projects.

18
19 In compliance with previous Board Orders the Application also includes specific information
20 required to be filed, including a report on 2013 capital expenditures, a five-year capital plan, as
21 well as evidence relating to deferred charges and a reconciliation of average rate base to invested
22 capital.

23
24
25 **2. Board Authority**

26
27 Section 41 of the *Act* requires a public utility to submit an annual capital budget of proposed
28 improvements or additions to its property for approval of the Board no later than December 15th
29 in each year for the next calendar year. In addition, the utility is also required to include an
30 estimate of contributions toward the cost of improvements or additions to its property which the
31 utility intends to demand from its customers.

32
33 Subsection 41(3) prohibits a utility from proceeding with the construction, purchase or lease of
34 improvements or additions to its property without the prior approval of the Board where (a) the
35 cost of the construction or purchase is in excess of \$50,000, or (b) the cost of the lease is in
36 excess of \$5,000 in a year of the lease.

37
38 Section 78 gives the Board the authority to fix and determine the rate base for the service
39 provided or supplied to the public by the utility and also gives the Board the power to revise the
40 rate base. Section 78 also provides the Board with guidance on the elements that may be
41 included in the rate base.

1 **3. Application Process**

2
3 Notice of the Application, including an invitation to participate, was published on July 6, 2013.
4 Details of the Application and supporting documentation were posted on the Board's website.

5
6 An intervention was received on July 3, 2013 from the Consumer Advocate, Mr. Thomas
7 Johnson. On July 9, 2013 Newfoundland and Labrador Hydro ("Hydro") advised the Board that
8 it did not intend to intervene at that time but reserved the right to seek leave to intervene should
9 something arise that is of general regulatory application or is of a subject matter upon which
10 Hydro's perspective can be of assistance to the Board. On July 23, 2013 the Consumer Advocate
11 issued 11 Requests for Information ("RFIs") to Newfoundland Power. The Board issued a further
12 6 RFIs on July 23, 2013. Newfoundland Power responded to the 17 RFIs on August 1, 2013. The
13 Consumer Advocate did not file additional intervenor evidence and did not request a technical
14 conference or oral hearing of the Application.

15
16 Grant Thornton, the Board's financial consultants, were retained to review the calculations of the
17 2012 actual average rate base. Grant Thornton filed a report on August 8, 2013 and copies were
18 provided to Newfoundland Power, the Consumer Advocate and Hydro.

19
20 The Consumer Advocate advised the Board on August 15, 2013 that he would not be filing
21 submissions in relation to the Application.

1 **II PROPOSED 2014 CAPITAL BUDGET**

2
3 **1. Overview**

4
5 Newfoundland Power's proposed total capital budget for 2014 is \$84,462,000. The proposed
6 expenditures by asset class are as follows:

<u>Asset Class</u>	<u>Budget (000s)</u>
1. Generation - Hydro ¹	\$ 9,010
2. Generation - Thermal	312
3. Substations	16,865
4. Transmission ²	5,469
5. Distribution	40,270
6. General Property	1,112
7. Transportation	2,570
8. Telecommunications	99
9. Information Systems	4,005
10. Unforeseen Allowance	750
11. General Expenses Capitalized	4,000
Total	<u>\$ 84,462</u>

7 **2. Evidence and Submissions**

8
9 Newfoundland Power provided detailed information supporting the overall capital budget for
10 2014 as well as the individual proposed expenditures. The supporting information for each of the
11 projects is comprehensive and consistent with the level of information filed in recent capital
12 budget applications and in accordance with the Board's Capital Budget Guidelines.

13
14 The Application proposes a 2014 capital expenditure of \$84,462,000, including \$3,853,000
15 approved by the Board in Order No. P.U. 31(2012) related to two multi-year projects which
16 commenced in 2013. These projects include the Heart's Content Plant Refurbishment
17 (\$3,495,000) and the Transmission Line Rebuild (\$358,000). These projects will be completed in
18 2014.

19
20 The Application states that approximately 51% of the proposed 2014 capital expenditure is
21 related to the replacement of plant and a further 33% is required to meet Newfoundland Power's
22 obligation to serve new customers and meet the requirement for increased system capacity. The
23 remaining 16% of forecast expenditures is related to information systems, system additions,
24 general expenses capitalized, third party requirements and financial carrying costs.

¹ Includes \$3,495,000 in expenditures approved in Order No. P.U. 31 (2012).

² Includes \$358,000 in expenditures approved in Order No. P.U. 31 (2012).

1 Distribution capital expenditures in 2014 are primarily required to meet customer requests for
2 new connections to the system. Newfoundland Power advises that distribution capital
3 expenditures to address reliability have been reduced in recent years and that no expenditures
4 associated with the Distribution Reliability Initiative are planned for 2014.

5
6 Capital expenditures are planned in 2014 for certain substations to address customer load growth.
7 Newfoundland Power plans to install new power transformers at Hardwoods and Bay Roberts. A
8 transformer will also be installed from inventory at the Marble Mountain substation. The Federal
9 Government has also moved up the timing for removal of PCBs from bushings and instrument
10 transformers, resulting in forecast capital expenditures of \$8.7 million in 2014 and an additional
11 \$4.2 million from 2015 to 2018.

12
13 Transmission line rebuilds are proposed in 2014 for the City of St. John's, Mount Pearl and
14 Conception Bay North. Newfoundland Power also plans to upgrade the governor, generator,
15 switchgear, protection and control systems at the Heart's Content hydro plant and will complete
16 a project in 2014 to increase the combined hydro production at Rocky Pond and Tors Cove.

17
18 According to the 2014 Capital Plan annual capital expenditures for the next five years (2014-
19 2018) are forecast to average approximately \$91 million, with a low of \$84.5 million in 2014 and
20 a high of \$95.3 million in 2016. Newfoundland Power reports that this level of annual
21 expenditure is broadly consistent with inflation adjusted annual expenditures for the previous
22 five years. Expenditures related to plant replacement and growth account for 84% of planned
23 expenditures over the next five years. This is also in line with Newfoundland Power's capital
24 budgets over the previous five years. The major forecast capital requirements for the next five
25 years include additional power transformers due to load growth, the phase-out of PCB
26 contaminated equipment, changes in meter regulations, completion of the refurbishment of the
27 Heart's Content hydro plant in 2014, the replacement of Pierre's Brook penstock planned for
28 2016, mobile generation, the refurbishment of gas turbines at Greenhill and Wesleyville in 2017
29 and 2018, and the refurbishment of the 67-year old hydroelectric plant in Mobile in 2018.

1 **3. Board Findings**
2

3 The Board has undertaken a full review of the Application and the evidence filed. The Board
4 notes that, while Newfoundland Power's capital spending level is trending upward, the evidence
5 shows that level of capital spending forecast for the next five years is broadly consistent, on an
6 inflation adjusted basis, with spending in the period 2009-2013. Replacement of plant and capital
7 expenditures necessary to satisfy customer growth and to meet the requirements of increased
8 system capacity are the main drivers for the spending. The Board finds that Newfoundland
9 Power's capital expenditure proposals are reasonable in the circumstances.

10

11 Based on the documentation and evidence on the record the Board finds that the proposed 2014
12 capital purchases and construction projects in excess of \$50,000 are prudent, reasonable and
13 necessary for Newfoundland Power to continue to provide safe and reliable service and should
14 be approved. The Board also finds that the proposed total capital budget for 2014 is prudent and
15 reasonable and will, therefore, approve Newfoundland Power's 2014 Capital Budget in the
16 amount of \$84,462,000.

1 **III. 2012 AVERAGE RATE BASE**
 2

3 The following table shows the calculation of the actual average rate base for 2012 compared with
 4 2011:

	(\$000s)	
	<u>2012</u>	<u>2011</u>
Net Plant Investment		
Plant Investment	1,439,646	1,371,771
Accumulated Amortization	(602,616)	(576,019)
Contributions in Aid of Construction	(31,006)	(29,013)
	<u>806,024</u>	<u>766,739</u>
Additions to Rate Base		
Deferred Pension Costs	100,113	97,628
Credit Facility Costs	239	270
Cost Recovery Deferral – Seasonal/TOD Rates	93	228
Cost Recovery Deferral – Hearing Costs	-	253
Cost Recovery Deferral – Regulatory Amortizations	3,320	1,642
Cost Recovery Deferral – 2012 Cost of Capital	1,766	-
Cost Recovery Deferral – Conservation	227	454
Customer Finance Programs	1,446	1,527
	<u>107,204</u>	<u>102,002</u>
Deductions from Rate Base		
Weather Normalization Reserve	4,804	5,020
Adjustment – 2010 Hearing Costs	-	6
Other Post Employment Benefits	14,617	7,199
Customer Security Deposits	851	695
Accrued Pension Obligation	4,020	3,778
Accumulated Deferred Income Taxes	2,504	862
Demand Management Incentive Account	558	1,252
	<u>27,354</u>	<u>18,812</u>
Year End Rate Base	885,874	849,929
Average Rate Base Before Allowances	867,902	861,681
Rate Base Allowances		
Materials and Supplies Allowance	5,332	5,012
Cash Working Capital Allowance	9,811	9,663
	<u>15,143</u>	<u>14,675</u>
Average Rate Base at Year End	<u>883,045</u>	<u>876,356</u>

Source: Application, Schedule D

1 Grant Thornton reviewed the calculation of the actual average rate base for 2012 and provided an
2 opinion that the calculation is accurate and in accordance with established practice and previous
3 Board Orders. Grant Thornton also reviewed the additions, deductions and allowances included
4 in the rate base and found no discrepancies or unusual items or non-compliance with Board
5 Orders.

6

7 The Board will approve all of the components of and Newfoundland Power's average rate base
8 for 2012 in the amount of \$883,045,000.

1 IV ORDER
23 **IT IS THEREFORE ORDERED THAT:**
4

- 5 1. Newfoundland Power's 2014 capital purchases and construction projects in excess of
6 \$50,000, as set out in Schedule A to this Order, are approved.
7
- 8 2. The 2014 Capital Budget for improvements and additions to Newfoundland Power's
9 property in an amount of \$84,462,000 is approved, as set out in Schedule B.
10
- 11 3. The average rate base for the year ending December 31, 2012 is hereby fixed and
12 determined at \$883,045,000.
13
- 14 4. Unless otherwise directed by the Board, Newfoundland Power shall file an annual
15 report to the Board on its 2014 capital expenditures by March 1, 2015.
16
- 17 5. Unless otherwise directed by the Board, Newfoundland Power shall provide, in
18 conjunction with the 2015 Capital Budget Application, a status report on the 2014
19 capital budget expenditures showing for each project:
20
- 21 (i) the approved budget for 2014;
 - 22 (ii) the expenditures prior to 2014;
 - 23 (iii) the 2014 expenditures to the date of the application;
 - 24 (iv) the remaining projected expenditures for 2014;
 - 25 (v) the variance between the projected total expenditures and the approved
26 budget; and
 - 27 (vi) an explanation of the variance.
28
- 29 6. Newfoundland Power shall pay all costs and expenses of the Board incurred in
30 connection with the Application.

DATED at St. John's, Newfoundland and Labrador this 13th day of September 2013.

Andy Wells
Chair & Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

Dwanda Newman, LL.B.
Commissioner

James Oxford
Commissioner

Cheryl Blundon
Board Secretary

2014 CAPITAL PROJECTS (BY ASSET CLASS)

Capital Projects

Budget (000s)

1. Generation – Hydro

Facility Rehabilitation	\$ 1,610
Hydro Plant Production Increase	1,665
Heart's Content Plant Refurbishment	2,240

Total Generation – Hydro **\$ 5,515**

2. Generation – Thermal

Facility Rehabilitation Thermal	\$ 312
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Total Generation – Thermal **\$ 312**

3. Substations

Substations Refurbishment and Modernization	\$ 6,023
Replacements Due to In-Service Failures	2,859
Additions Due to Load Growth	5,004
PCB Bushing Phase-out	2,733
Hardwoods Substation Feeder Termination	246

Total Substations **\$ 16,865**

4. Transmission

Transmission Line Rebuild	\$ 5,111
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Total Transmission **\$ 5,111**

2014 CAPITAL PROJECTS (BY ASSET CLASS)

Capital Projects

Budget (000s)

5. Distribution

Extensions	\$ 11,689
Meters	2,755
Services	3,930
Street Lighting	2,480
Transformers	6,995
Reconstruction	3,787
Rebuild Distribution Lines	3,462
Relocate/Replace Distribution Lines for Third Parties	2,616
Trunk Feeders	1,261
Feeder Additions for Growth	1,102
Allowance for Funds Used During Construction	193

Total Distribution **\$ 40,270**

6. General Property

Tools and Equipment	\$ 458
Additions to Real Property	379
Standby and Emergency Power – Gander Office	275

Total General Property **\$ 1,112**

7. Transportation

Purchase Vehicles and Aerial Devices	\$ 2,570
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Total Transportation **\$ 2,570**

2014 CAPITAL PROJECTS (BY ASSET CLASS)

Capital Projects

Budget (000s)

8. Telecommunications

Replace/Upgrade Communications Equipment \$ 99

Total Telecommunications \$ 99

9. Information Systems

Application Enhancements \$ 1,372

System Upgrades 1,059

Personal Computer Infrastructure 420

Shared Server Infrastructure 833

Network Infrastructure 321

Total Information Systems \$ 4,005

10. Unforeseen Allowance

Allowance for Unforeseen Items \$ 750

Total Unforeseen Allowance \$ 750

11. General Expenses Capitalized

General Expenses Capitalized \$ 4,000

Total General Expenses Capitalized \$ 4,000

2014 CAPITAL BUDGET

<u>Asset Class</u>	<u>Budget (000s)</u>
1. Generation - Hydro ¹	\$ 9,010
2. Generation - Thermal	312
3. Substations	16,865
4. Transmission ²	5,469
5. Distribution	40,270
6. General Property	1,112
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11. General Expenses Capitalized	4,000
Total	<u>\$ 84,462</u>

¹ Includes \$3,495,000 in expenditures approved in Order No. P.U. 31 (2012) for the Heart's Content Plant Refurbishment.

² Includes \$358,000 in expenditures approved in Order No. P.U. 31 (2012).