



October 14, 2015

Ms. G. Cheryl Blundon
Board of Commissioners of Public Utilities
120 Torbay Road, P.O. Box 12040
St. John's, NL A1A 5B2

Ladies & Gentlemen:

**Re: Newfoundland and Labrador Hydro 2016 Capital Budget Application
Submission of the Consumer Advocate**

In relation to the above noted application please find enclosed the original and twelve (12) copies of the Submission of the Consumer Advocate.

A copy of the letter, together with enclosures, has been forwarded directly to the parties listed below.

If you have any questions regarding the filing, please contact the undersigned at your convenience.

Yours very truly,

O'DEA, EARLE

THOMAS JOHNSON, Q.C.

TJ/cel

cc: Newfoundland & Labrador Hydro
P.O. Box 12400
500 Columbus Drive
St. John's, NL A1B 4K7
Attention: Geoffrey P. Young, Senior Legal Counsel

IN THE MATTER OF the *Public Utilities Act*, (the "Act"); and

IN THE MATTER OF an Application by Newfoundland and Labrador Hydro for an Order approving: (1) its 2016 capital budget pursuant to s.41(1) of the Act; (2) its 2016 capital purchases, and construction projects in excess of \$50,000 pursuant to s.41 (3) (a) of the Act; (3) its leases in excess of \$5,000 pursuant to s. 41 (3) (b) of the Act; and (4) its estimated contributions in aid of construction for 2016 pursuant to s.41 (5) of the Act.

To Board of Commissioners of Public Utilities
Suite E210, Prince Charles Building
120 Torbay Road
P.O. Box 12040
St. John's, NL A1A 5B2
Attention: Ms. G. Cheryl Blundon
Direct of Corporate Services & Board Secretary

**SUBMISSION OF THE CONSUMER ADVOCATE
NEWFOUNDLAND AND LABRADOR HYDRO 2016 CAPITAL BUDGET
APPLICATION**

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Introduction

1 Newfoundland and Labrador Hydro's ("Hydro") 2016 Capital Budget Application ("the
2 Application") was filed with the Board of Commissioners of Public Utilities (the "Board")
3 on July 31, 2015. Hydro is seeking approval of \$183.7 million in capital expenditures
4 under the Application.

5
6 The Consumer Advocate wishes to submit the following with respect to the Application:

The Public Utilities Act, RSNL, c. P-47.

7
8
9 As set out by s. 37(1) of the Public Utilities Act RSNL1990 c. P-47 as amended, a public
10 utility such as Hydro shall provide service and facilities that are reasonably safe and
11 adequate and just and reasonable. Further, s. 41 of the Public Utilities Act requires a
12 public utility to submit an annual capital budget of proposed improvements or additions
13 to its property for approval by the Board, while section 78 of the said Act vests authority
14 in the Board to fix and determine the rate base for the service provided or supplied to the
15 public by the utility and also gives the Board the power to revise the rate base.

The Electrical Power Control Act, 1994

16
17
18 Section 3(b) of the Electrical Power Control Act, 1994 SNL1994 c. E-5.1 as amended,
19 outlines that all sources and facilities for the production, transmission, and distribution of
20 power in the province should be managed and operated in a manner that would result in:

- 21 (i) the most efficient production, transmission, and distribution of power;
22 (ii) consumers in the province having equitable access to an adequate supply of
23 power, and;
24 (iii) power being delivered to customers in the province at the lowest possible cost
25 consistent with reliable service.

26
27 The onus rests upon a utility to establish before the Board that the expenditures
28 proposed are necessary in the year in which they are proposed. Further, the onus is on
29 a utility to show that the proposed expenditures represent the lowest cost alternative for
30 the provision of electricity service in the province.

31
32 The Board must determine whether Hydro's proposed capital spending projects in 2016
33 are reasonably required for Hydro to meet its statutory obligations to provide reasonably

1 safe and adequate least cost service to its customers. As it is the consumer who
2 ultimately pays the interest on the debt and the return on equity as well as the costs of
3 depreciation on the acquired assets, the Consumer Advocate has previously expressed
4 concern over escalating amounts sought by utilities for capital projects.

5
6 In Order No. P.U. 50(2014) at page 5, the Board wrote the following:

7
8 *As stated previously in this Decision and in Order No. P.U. 42(2013), the level of*
9 *Hydro's forecast capital expenditures for the next few years is unprecedented.*
10 *The Board's findings in Order No. P.U. 42(2013) as shown above are still*
11 *relevant and important, especially in the context of the significant changes in the*
12 *way electricity will be supplied on the Island Interconnected system.*
13

14 In its 2015 Capital Budget Application, Hydro sought \$79.9 million in capital
15 expenditures, which was actually a decrease from its 2014 Capital Budget Application in
16 which \$98.7 million in capital expenditures were sought.

17
18 The following is a summary of the capital expenditures sought by Hydro from 2011-2015:

19
20 2015: \$79.9 million in capital expenditures;
21 2014: \$98.7 million in capital expenditures;
22 2013: \$66.1 million in capital expenditures;
23 2012: \$87.9 million in capital expenditures;
24 2011: \$65.1 million in capital expenditures.

25
26 While it can argued that the amounts sought by Hydro for capital expenditures have
27 been broadly consistent between 2011 to 2015, 2016 represents a significant increase,
28 more than double from the previous year. This is not an anomaly; Hydro
29 states that its five year plan will result in average capital expenditures of \$175 million:

30
31 *Hydro plans to invest \$0.9 billion in plant and equipment over the 2016 to 2020*
32 *period for an average capital expenditure of \$175 million. Individual year*
33 *expenditures will range from a low of \$111 million in 2019 to a high of \$248*
34 *million in 2017. Over the period 2010 to 2014, the average annual capital*
35 *expenditure was \$96 million. The growth in overall capital expenditure reflects*
36 *the requirement for projects related to replacement and upgrade of deteriorating*
37 *facilities, ensuring compliance with legislation, additions required to meet load*
38 *growth and inflation.*

Given Hydro's forecast, the Consumer Advocate reiterates the importance that all expenditures being proposed must be fully considered to determine if they are, in fact, required to provide safe and adequate least cost service to customers. While some expenditures may not be avoided, Hydro also has ongoing, annual recurring costs which the Consumer Advocate submits should be carefully considered prior to approval.

In light of these observations, the Consumer Advocate wishes to make submissions upon the following projects.

A: Tab D – Projects Over \$200,000 and Less Than \$500,000: p. D-353 – Replace Light Duty Mobile Equipment;

Hydro is seeking \$348,000 for the replacement of 13 all-terrain vehicles, 8 snowmobiles and six light duty trailers.

In terms of its snowmobiles, Hydro differentiates between snowmobiles/ATVs used for Transmission Line crews and "other". The vehicles used primarily for Transmission Line crews are exposed to use along transmission lines and construction sites and not groomed trails. As such, Hydro states that these snowmobiles and ATVs are exposed to more severe conditions (CA-NLH-10; PUB-NLH-011).

Hydro uses a 3-5 year assessment range for its Transmission Line crew vehicles (Tab D page D-355) and a 5-7 year assessment range for "other". This would be the time when Hydro would consider a vehicle for replacement, but that may not necessarily occur (CA-NLH-10).

However, Hydro's criteria are not in line with the one other Atlantic utility it has obtained replacement information for. The other Atlantic utility uses a ten year cycle for replacement of non-transmission line vehicles, which is 3 years longer than Hydro (CA-NLH-10).

According to CA-NLH-12, 2 of the vehicles Hydro is seeking to replace are not transmission line vehicles. The ages of these vehicles at the projected retirement are

1 7.9 years (Generation) and 7.8 years (Distribution). The ATV Hydro refers to in CA-
2 NLH-10 as being retired at 9.1 years (V7098) does not appear to be used by
3 Transmission Line crews or “other” as it is not listed in CA-NLH-12. In any event, none
4 of the ATVs or snowmobiles listed (page D-358) attain the assessment age of the other
5 Atlantic utility of 10 years for non-transmission use vehicles.

6
7 The Consumer Advocate submits that Hydro has not provided any reason as to why it
8 should not, or cannot, meet the same 10 year replacement assessment for
9 ATV/Snowmobiles used by the other Atlantic Utility. An extension of the time frame
10 would save on what is a recurring cost.

11
12 The Consumer Advocate submits that the replacement of any ATV or Snowmobile not
13 used for Transmission Line crews should be deferred. Hydro should adjust its
14 assessment age to 10 years for these vehicles to line its practice up with the other
15 Atlantic utility surveyed.

16
17 B: Volume III, Tab 27 – Replace Roof on Services Building, Bishop’s Falls

18
19 The anticipated cost of this project is \$612,800, and consists of replacing the roofing
20 system on the Bishop’s Falls Services building. In this project, Hydro has not
21 evaluated the cost of a hot applied system for this building, but states that generally a
22 hot applied system is approximately 30% less than the cold applied system Hydro is
23 seeking (CA-NLH-039). The increased cost of the cold applied system was one of the
24 factors which lead to the current hot applied roof being placed on the Services building in
25 1989 (CA-NLH-040).

26
27 The only safety benefit Hydro is relying on for the use of the cold applied system instead
28 of a hot applied system is the lack of using an open flame heat source to apply the roof
29 (CA-NLH-038). Hydro also states that an added benefit of the cold applied
30 system is a reduction in fumes and pollution (CA-NLH-041) presumably from the
31 installation process.

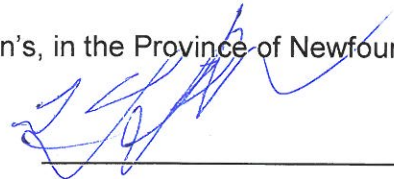
32
33 The Consumer Advocate submits that Hydro has not presented any evidence as to why
34 a hot applied roofing system, which is still used for both residential homes and

1 commercial buildings, cannot be applied again for the Bishop's Falls Services building.
2 There is a potential of significant savings if a hot applied system is used, but there is no
3 cost benefit analysis for this option provided by Hydro.

4
5 The Consumer Advocate also notes the lower rank of this project (CA-NLH-042).

6
7 The Consumer Advocate submits that this project should be deferred. There is a viable
8 alternative to the roof being advanced by Hydro which has significant savings. A full
9 consideration of the hot applied roofing system should be considered by Hydro and then
10 this project should be resubmitted to allow for a full review by the Board and Parties.

11
12 **RESPECTFULLY SUBMITTED AND DATED** at St. John's, in the Province of Newfoundland
and Labrador, this 14th day of October, 2015.



THE CONSUMER ADVOCATE

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Attention: Paul Coxworthy