

September 15, 2011

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 of Corporate Services & Board Secretary**

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro – 2012 Capital Budget Application Revision**

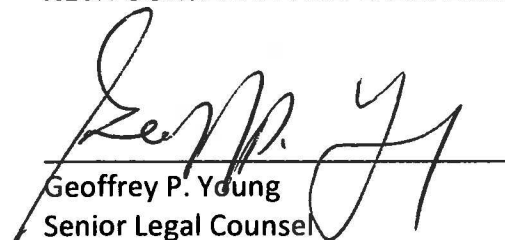
Please find enclosed ten copies of revisions to Hydro's 2012 Capital Budget Application. The revisions are necessary to correct a typo on page 3 of the "2012 Capital Projects Overview" section; the revisions to Table 1, page 2 of the "2012 Capital Projects Overview" were made to reflect a more detailed review; and the revision to page B2 of the "2012 Capital Plan" section reflects the estimate accuracy for the period 2012 to 2031 (the original 2012 application headings were inadvertently left unchanged).

For ease of reference, these revisions are highlighted in yellow.

Should you have any questions, please contact the undersigned.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**

  
Geoffrey P. Young  
Senior Legal Counsel

GPY/jc

cc: Gerard Hayes – Newfoundland Power  
Paul Coxworthy – Stewart McKelvey Stirling Scales

Thomas Johnson – Consumer Advocate  
Dean Porter – Poole Althouse

reconciling the two sets of records for the foreseeable future would require additional investment in both personnel and systems. Additionally, it would impair transparency when parties, including the Board, review external and regulatory records, including financial reports.

Hydro recognizes that the move to IFRS is a significant issue in the regulated utility industry. Hydro intends to engage in a more comprehensive discussion with the Public Utilities Board in the future regarding its overall proposed approach to implementing IFRS. However, in preparing its 2012 Capital Budget Application, Hydro encountered a number of IFRS-related issues that required treatment prior to the full IFRS discourse. The issues and rationale for their treatment are provided herein.

Table- 1 below identifies the five areas of the 2012 Capital Budget Application that are affected by the move to IFRS. The changes that have resulted from the transition to IFRS are consistent with those communicated previously to the Public Utilities Board.

**Table - 1 – Treatment of IFRS-Related Issues in the 2012 Capital Budget Application**

Description	Description	Amount excluded from capital under IFRS (permitted under GAAP) \$ x 000,000	Amount Included in capital under IFRS (expensed under GAAP) \$ x 000,000	Net Impact on Capital \$ x 000,000
Major Overhauls and Inspection	Major Overhauls and Inspections were expensed as operating costs in previous budget applications but capitalized under IFRS	-	6.8	6.8
Training costs	Training costs are operating expenses under IFRS	0.2	-	(0.2)
Capital Labour Overheads (10% and 20%)	Capital Labour overheads are not allowed under IFRS	1.3	-	(1.3)
Corporate Overhead Allocation (2-4%)	Current corporate overheads methodology not allowed under IFRS	2.1	-	(2.1)
AFUDC vs. IDC	AFUDC is excluded and IDC permitted	2.2	2.4	0.2

### Major Overhauls and Inspections

International Accounting Standard (IAS) 16 (Appendix A) states that a condition of continuing to operate an item of property, plant and equipment may be performing regular major inspections or overhauls. The cost of these inspections or overhauls should be recognized in the carrying amount of the asset.

Hydro has adopted the following policies and guidelines with respect to capitalizing Major Inspections and Overhauls:

- 1) The overhaul or inspection will occur at regular intervals throughout the life of the asset, and would occur on a frequency of greater than one year;
- 2) The total cost of the overhaul or inspection will be greater than \$50,000; and
- 3) Any remaining carrying amount of the previous overhaul or inspection will be derecognized when a new overhaul or inspection occurs.

Hydro believes that it is appropriate to capitalize Major Inspections and Overhauls under these conditions as they represent a benefit that will last over periods of greater than one year and to include the full cost in the year the work was performed would result in volatility in operating costs.

The projects capitalized in the Hydro 2012 Capital Budget Application as Major Inspections and Overhauls under IAS 16 are as follows:

- 1) Major Overhaul of a turbine at Holyrood generating station \$4.2 million
- 2) Major Overhaul of diesel generators \$1.0 million
- 3) Major Overhaul of Hydro generators \$0.4 million
- 4) Major Inspection of Holyrood plant \$1.2 million

These major overhauls or inspections will deliver economic benefit over future years and meet the IFRS capital recognition criteria.

#### Training Costs

Under Generally Accepted Accounting Principles (GAAP), Hydro included training costs associated with capital projects in the cost of those projects. IFRS no longer allows the capitalization of training costs. This does not represent a material change and therefore Hydro proposed to include training costs in operating rather than capital expenditures for 2012 and beyond.

#### Allowance for Funds Used During Construction (AFUDC)

Under GAAP, Hydro capitalized borrowing costs using AFUDC which includes both the cost of debt and equity. IAS 23 (Appendix B) only allows the capitalization of borrowing costs based on the cost of debt. Hydro's AFUDC, based on the 2007 approved Test Year Weighted Average Cost of Capital is 7.53% (7.529%), compared to the forecast<sup>1</sup> interest rate of 8.2% included in this Application. As shown in Table 1, this does

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<sup>1</sup> The actual interest rate will be used for the actual capital expenditures.

20 Year Sustaining Capital  
(\$000)

	Accuracy 20%	Accuracy 40%				Accuracy 50% to order of magnitude														
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Generation</b>																				
Hydro plants	11,490	11,669	10,090	10,473	4,884	2,190	695	515	760	575	810	275	425	510	1,025	150	510	525	545	550
Thermal Plant	19,983	18,652	22,001	18,272	25,750	4,200	2,750	5,100	5,250	3,700	6,750	5,300	2,325	2,850	3,000	4,700	3,650	3,900	3,620	3,775
Gas Turbines	3,367	4,344	4,528	2,142	650	250	950	2,450	3,450	3,100	3,325	3,410	3,450	3,250	3,530	2,220	1,600	1,200	2,360	2,180
Tools and Equipment	196	164	24	84	21	393	393	393	393	393	393	393	393	393	393	393	393	393	393	393
<b>Transmission and Terminals</b>																				
Terminal Stations	14,149	12,695	15,687	14,090	8,020	7,480	10,225	10,105	10,535	7,935	8,751	8,280	7,870	7,685	8,205	8,115	8,395	5,395	7,560	7,535
Transmission	6,027	36,687	54,006	72,411	72,833	10,407	9,428	8,123	8,591	11,574	12,476	11,370	18,594	16,250	15,201	16,072	17,556	23,434	25,786	19,610
Metering	628	962	581	153	157	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33
Tools and Equipment	2,019	2,692	600	1,606	595	1,071	1,672	1,030	1,069	1,904	1,981	2,658	1,605	1,659	1,341	2,190	931	2,855	1,260	493
<b>Rural Systems</b>																				
Distribution	17,416	15,420	15,023	16,242	13,726	13,267	14,276	14,307	11,437	11,007	9,559	10,138	10,452	9,955	10,066	9,362	8,730	9,767	3,970	3,885
Diesel Plants	3,823	4,252	11,112	5,645	3,604	4,220	5,085	4,460	2,605	2,660	2,190	1,180	575	1,247	4,029	3,940	1,595	2,275	2,615	2,890
<b>General Properties</b>																				
Information Systems	2,347	2,922	2,561	1,845	2,909	4,303	4,682	3,488	2,848	6,700	1,880	6,652	2,203	2,746	1,752	1,752	2,235	1,818	2,061	1,924
Telecontrol	2,686	1,988	8,693	6,510	8,119	1,140	2,119	2,000	3,550	6,037	5,762	1,984	3,247	1,805	2,592	1,251	2,931	2,373	2,190	2,267
Transportation	2,350	4,116	3,143	1,359	3,657	2,501	2,009	2,601	4,687	1,735	1,634	3,354	2,290	3,071	2,495	3,718	1,984	1,408	4,371	1,729
Administrative	381	3,807	2,638	3,405	1,049	318	398	478	618	518	518	418	678	718	468	718	618	318	618	718
<b>Contingency Fund</b>	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
<b>Total Existing Assets</b>	<b>87,862</b>	<b>121,369</b>	<b>151,686</b>	<b>155,237</b>	<b>146,973</b>	<b>52,773</b>	<b>55,715</b>	<b>56,083</b>	<b>56,827</b>	<b>58,871</b>	<b>57,062</b>	<b>56,445</b>	<b>55,141</b>	<b>53,172</b>	<b>55,130</b>	<b>55,615</b>	<b>52,162</b>	<b>56,694</b>	<b>58,383</b>	<b>48,981</b>
<b>Total for 20 Years</b>																				
<b>Average</b>																				
<b>Total Holyrood without Lower Churchill</b>	0	0	0	0	0	148,090	232,650	261,950	132,900	21,425	1,000	0	1,500	50	0	0	2,500	0	0	0
<b>Total for 20 Years</b>	802,065																			
<b>Average</b>	40,103																			