

A REPORT TO  
THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**2012 CAPITAL BUDGET APPLICATION  
PHASE I SUBMISSION**

**NEWFOUNDLAND AND LABRADOR HYDRO**

October 12, 2011



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1 **IN THE MATTER OF** the *Public*  
2 *Utilities Act*, (the “Act”); and  
3  
4 **IN THE MATTER OF** an Application by  
5 Newfoundland and Labrador Hydro for  
6 an Order approving: (1) its 2012 capital budget  
7 pursuant to s.41(1) of the Act; (2) its 2012  
8 capital purchases and construction projects  
9 in excess of \$50,000 pursuant to s.41 (3) (a)  
10 of the Act; (3) its leases in excess of  
11 \$5,000 pursuant to s.41 (3) (b) of the Act;  
12 and (4) its estimated contributions  
13 in aid of construction for 2011 pursuant to  
14 s.41 (5) of the Act and for an Order pursuant to  
15 s.78 of the Act fixing and determining its average  
16 rate base for 2010.  
17  
18  
19 **TO:** The Board of Commissioners of Public Utilities (“the Board”)

## 1 **1 Introduction**

2 Hydro filed its 2012 Capital Budget with the Board of Commissioners of Public Utilities (the  
3 Board) dated August 3, 2011 seeking approval under Section 41 of the *Public Utilities Act*  
4 (the Act) of \$87.9 million in capital expenditures and seeking approval under Section 78 of  
5 the Act of its 2010 rate base in the amount of \$1,484,659,000. On August 25, 2011, the  
6 Board advised that it had decided to conduct the review of Hydro's 2012 Capital Budget  
7 Application in two phases, with Phase I dealing with non-Holyrood Thermal Generating  
8 Station (Holyrood) capital budget proposals, any urgent Holyrood projects identified as such  
9 for inclusion in Phase I and any Holyrood projects that were consented to by the parties. On  
10 August 31, 2011, Hydro provided a list of projects to be included in each of Phases I and II.  
11 Additionally, the Board, in Order No. P.U. 20(2011), decided that capital budget proposals  
12 submitted by Hydro in July 2011 for the refurbishment of Tank 3 at the fuel oil storage  
13 facility and the work for the Unit 1 stack breeching, a portion of which was not approved in  
14 Order No. P.U. 20(2011) should be considered in the Phase II review of Hydro's 2012 Capital  
15 Budget Application. On September 26, 2011, the Board determined that the Upgrade  
16 Transmission Line Corridor Bay d'Espoir to Western Avalon project, because of a delay in  
17 Hydro's filing of the report on that project, and the magnitude of the project, should be  
18 considered in Phase III of the Application. This submission deals with the capital projects  
19 included in Phase I.

20

21 Interventions were filed in this matter by the Consumer Advocate, the Industrial Customers  
22 and Newfoundland Power. The Board, the Consumer Advocate and the Industrial  
23 Customers filed Requests for Information (RFIs); and the Consumer Advocate and the Island  
24 Industrial Customers filed final submissions in this matter, both of which were filed on  
25 October 7, 2011.

1 During the course of providing responses to the RFIs, Hydro identified two <sup>1</sup> Phase I projects  
2 with revisions to their 2012 budgeted expenditures. Hydro seeks approval of its 2012  
3 Capital Budget projects, as revised in the amended Application of October 11, 2011 and the  
4 attached amended Phase I list of projects, and approval of its 2010 rate base, and in support  
5 of that Application, makes the following submissions.

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<sup>1</sup> See PUB-NLH-30 regarding the 2012 expenditures related to the project to replace Programmable Logic Controllers in Holyrood, and PUB-NLH-36 regarding 2012 expenditures related to the New 25 kV Terminal Station in Labrador City.

1 **2 Legislative Framework**

2 Hydro is required by Section 37 of the Act to provide electrical service and facilities that are  
3 safe and adequate and just and reasonable. Section 41 of the Act requires Hydro to obtain  
4 approval from the Board for its annual capital budget. Section 78 of the Act sets out the  
5 Board's authority to fix and determine a public utility's rate base. In addition, Section 3 of  
6 the *Electrical Power Control Act, 1994* requires that Hydro provide electrical service that is  
7 efficient, that is provided such that its customers have equitable access to an adequate  
8 supply of power, and that is provided at least cost consistent with reliable service.

9

10 The projects proposed in Hydro's 2011 capital budget are necessary to enable Hydro to  
11 comply with these legal duties. The level of capital expenditures considered in Phase I is  
12 required to enable Hydro to maintain its infrastructure and meet its statutory obligations to  
13 provide electrical service and facilities that are safe and adequate and just and reasonable.

## 1 **3 Compliance Matters**

2 The projects in the Application have been filed in accordance with Order No. P.U. 7 (2002-  
3 2003) and the Capital Budget Application Guidelines.

4  
5 Section I of the Application is a report on the status of the 2011 capital expenditures  
6 including those approved by Order No. P.U. 38 (2010), projects under \$50,000 not included  
7 in the Order, and the 2010 capital expenditures carried forward to 2011.

8  
9 Section J to this Application is a report on the ten-year Plan of Maintenance Expenditures  
10 for the Holyrood Generating Station filed in accordance with Order No. P.U. 14 (2004).

11

12

### 13 **3.1 Response to Intervenors' Submissions**

14

#### 15 3.1.1 Level of Expenditures

16 Both the Consumer Advocate and the Industrial Customers express concern with regard to  
17 the level of capital expenditures being proposed in 2012, and the future year levels included  
18 in Hydro's five-year plan. In assessing the projects being proposed, Hydro has ensured that  
19 it is also complying with the power policy provisions of Section 3 of the *Electrical Power*  
20 *Control Act, 1994* which require that electrical service is managed and delivered in a manner  
21 that is efficient and at the lowest cost consistent with reliable service. Choosing least cost  
22 options and managing and operating power facilities in the most efficient manner will result  
23 in the delivery of power at rates that, over the longer term, are as low as they can  
24 reasonably be.

25

26 Given the aforementioned legislative requirement, choosing capital projects always requires  
27 an appreciation of the appropriate balance between reliability and cost. In this stage of  
28 Hydro's life, an additional complexity has been added because Hydro is required to consider

1 the future role of the Holyrood Thermal Generating Station and its other facilities given  
2 Hydro's plan and expectation to develop the Muskrat Falls hydro-electric potential as a  
3 means of meeting the Island's long-term power requirements. The capital proposals that  
4 comprise Hydro's 2012 Capital Budget have been selected with this in mind so as to  
5 minimize the impacts that capital spending will have on rates. Having said that, as  
6 described and explained in Hydro's 2012 Capital Plan filed with its Capital Budget  
7 Application, there are upward cost pressures facing Hydro arising from its aging plant and  
8 its need to meet projected customer load growth in the coming years.

9

### 10 3.1.2 Project Prioritization

11 Hydro's capital budget process includes receiving proposals from all areas of the  
12 organization, and then assessing which proposals are necessary to meet its statutory  
13 obligations. Among the tools Hydro uses to determine which capital proposals are prudent  
14 and essential to the provision of reliable service in a manner that is least cost, Hydro uses a  
15 Project Prioritization methodology. The prioritization information provides greater  
16 transparency to Hydro's project selection process and permits the Board and the  
17 intervenors to gain a better understanding of the relative importance of the projects.

18

19 This is a very helpful screening tool to assist in selecting the necessary projects and  
20 contributes greatly to the overall capital budget. It remains critical that the use to which  
21 this Project Prioritization is to be put is not misunderstood. Each project must still be  
22 assessed according to its own merits; each must achieve the objects of the relevant  
23 legislation in accordance with the judgment and discretion of the Board. The purpose of the  
24 ranking is not pass-fail based upon the score achieved; rather, the ranking is intended to  
25 provide greater insight into the overall and relative importance of each project and provide  
26 insight and understanding into the information and analysis used by Hydro in choosing the  
27 projects.



1 Hydro has diverse operating areas, including hydraulic, thermal and diesel generation, as  
2 well as high voltage transmission and distribution, comprising two interconnected systems,  
3 and 21 diesel systems. Hydro personnel responsible for each area put forth capital  
4 proposals, and along with engineering staff, collectively assess the projects' impacts on  
5 criteria such as number of customers served and availability of redundant service.

6

7 In Hydro's view, the Project Prioritization is useful supplemental information to assist Hydro  
8 in determining the scope of the annual Capital Budget. It is not intended to replace any  
9 aspect of the Capital Budget Guidelines nor is it intended to supplant other methods of  
10 testing and scrutiny that Hydro would put into its Capital Budget proposals or that the  
11 Board would use in considering the capital budget or any capital project.

12

13 The Industrial Customers appear to take exception to Hydro's prioritization methodology.  
14 In particular, the Industrial Customers have taken issue with Hydro's approach, in this  
15 regard, to multi-year projects. To assist Hydro and the Board in the consideration of capital  
16 budgets, Hydro takes out of the ranking process the multi-year projects that have already  
17 been reviewed, considered and approved by the Board. These projects have been approved  
18 to be built and have already commenced and revisiting them and measuring them against  
19 all other projects in following years does not assist the Board in its efficient consideration of  
20 the new projects or of Hydro's overall capital budget. That is, Hydro treats the already  
21 approved, multi-year projects in the ranking process by dealing with them in the same  
22 manner as it deals with projects that it believes to be mandatory – it gives them a ranking of  
23 "1" to take them out of the ranking process. Hydro treats all projects it considers to be  
24 mandatory as standing together from a project ranking perspective. Of course, the Board  
25 retains regulatory discretion as to whether it will approve any such project but Hydro  
26 cannot, in a meaningful way, draw ranking distinctions between projects it has determined  
27 that it must propose to be included in its capital budget.

1 Hydro would point out that it does not submit projects to the Board for approval if they fail  
2 to meet the tests of being prudent and essential to the provision of reliable service in a  
3 manner that is least cost. The prioritization of projects provides one documented internal  
4 screening process where proponents of capital proposals use the considerations in the  
5 methodology to determine whether the proposed projects meet those tests.

### 6 7 3.1.3 Managing Capital Expenditures and Managing Risk

8 Hydro seeks to ensure its infrastructure remains safe and reliable, at the least cost to the  
9 ratepayers. The Industrial Customers submission on the 2012 capital budget states<sup>2</sup> that  
10 Hydro has presented no evidence that any decrease in reliability of service has occurred in  
11 recent years due to aging infrastructure. The Industrial Customers suggest that maintaining  
12 system reliability is indicative of Hydro incurring excessive capital expenditures by positing  
13 worst case scenarios<sup>3</sup>. Hydro maintains that the sustaining of reliability levels is in fact  
14 indicative of Hydro doing the right work, at the right time. It is noteworthy that the  
15 Industrial Customers discuss reasonable risk management on the part of Hydro, where  
16 Hydro assesses each capital proposal in light of the risk to its customers.

17  
18 The Industrial Customers also request that the Board maintain a distinction between  
19 expenditures for improvement or addition to Hydro's property and other capital  
20 expenditures<sup>4</sup>, in light of Section 41 of the Act. Hydro contends that the Act clearly  
21 contemplates expenditures to property other than that owned by a utility, in Section 78.

22 The relevant parts of Section 78 of the Act read as follows:

23  
24 *78. (1) Except as otherwise provided in this Act, the board may fix and determine a*  
25 *separate rate base for each kind of service provided or supplied to the public by a*  
26 *public utility, and may revise the base.*

27  
28 *(2) In fixing a rate base the board may, in addition to the value of the property*  
29 *and assets as determined under section 64, include*

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<sup>2</sup> Page 12, lines 7-8.

<sup>3</sup> Page 12, lines 12-16

<sup>4</sup> Page 13

1  
2 *(f) the part, that the board may determine, of the money paid for the use of*  
3 *plant or equipment leased, hired or shared by the public utility, either as*  
4 *supplementary to or instead of its own plant or equipment;*  
5

6 It is clear that the legislature intended that utilities be permitted, in appropriate  
7 circumstances, to include in rate base amounts expended upon assets which the utility is  
8 entitled to use, even where the utility does not own the assets upon which the expenditures  
9 are being made.

10  
11 In competitive industries, significant risks are taken to keep capital costs down, sometimes  
12 by allowing assets to run to failure. Companies in competitive industries can lawfully  
13 choose to run their operations in that manner and their shareholders may be only too  
14 pleased to take those risks. However, running assets to failure is not a permissible option  
15 for a public utility providing an essential service, nor is it a mode of asset management or  
16 utility regulation that can be condoned by the regulator acting under legislation as exists in  
17 this jurisdiction.

18  
19 As stated above, the regulation of capital spending of electrical utilities in this jurisdiction  
20 requires that the utilities spend those amounts required to purchase and construct assets  
21 so that they provide electrical service and facilities that are safe and adequate and just and  
22 reasonable. This test, combined with the least cost test prescribed under the Electrical  
23 Power Control Act, 1994, together contain sufficient and complete policy direction to the  
24 Board to enable it to consider and decide upon the capital spending of the utilities it  
25 regulates, always ensuring that the best interests of the customers are maintained over  
26 both the short term and the long term.

#### 27 28 3.1.4 International Financial Reporting Standards (IFRS)

29 Hydro has applied to the Board for approval of certain IFRS-related changes to its costing of  
30 capital projects, and for inclusion as capital projects major inspections and overhauls,  
31 consistent with the IFRS treatment of these expenditures. Effective January 1, 2012,

1 Hydro's financial statements must be prepared in accordance with IFRS. As stated in  
2 Hydro's 2012 Capital Plan overview<sup>5</sup>, maintaining regulatory reporting differences in each  
3 capital project would require Hydro to keep two sets of asset records, which total  
4 approximately 40,000 to date. Each new project would require two reconcilable sets of  
5 capital costs, and resultant monthly depreciation expenses, forecasts and budgets.  
6 Additional investment in both personnel and information systems would be required, and  
7 Hydro anticipates further capital expenditures would be required for the information  
8 system infrastructure. IFRS impacts on capital expenditures can be assessed by the Board,  
9 and have been reviewed by the Board's external financial consultants, independently,  
10 without deferral pending an IFRS overview, as requested by the Industrial Customers.<sup>6</sup>

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<sup>5</sup> Pages 1-4, International Financial Reporting Standards Section

<sup>6</sup> Industrial Customer Submission of October 7, 2011, page 15, lines 18-22.

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## 1 **4 Individual 2012 Capital Budget Projects**

### 2 **4.1 Upgrade Burnt Dam Spillway, page B-14 (\$1,702,800)**

3  
4 This project is justified primarily upon reliability in order for Hydro to provide safe and  
5 reliable flood management for the Victoria Lake and Burnt Bond Reservoirs, as well as  
6 environmental requirements regarding fisheries compensation flow into the White Bear  
7 River. The first year of this four-year rehabilitation program was proposed in Hydro's 2011  
8 Capital Budget Application and supported in part by a report from Hatch on the Hydraulic  
9 Structure Life Expectancy Study, and in Order No. P.U. 38(2010), the Board indicated that it  
10 expected Hydro would provide updated evidence in further submissions. Hydro contracted  
11 Weir Power and Industrial (Weir) to conduct a site inspection of gear boxes and related  
12 equipment at the Burnt Dam control structure.

13  
14 Among the recommendations made by Weir was that the gear boxes be removed from the  
15 site and sent to a machine shop. Hydro agrees with that recommendation, and as the  
16 removal of the gear boxes requires removal of many other pieces of the structure, it sees  
17 this as an opportunity to perform a comprehensive inspection of other components of the  
18 spillway structure. The complete scope of work and the supporting references to the Hatch  
19 and Weir report were filed in response to RFIs PUB-NLH-47 and PUB-NLH-48.

20  
21 The Industrial Customers have indicated that the capital expenditure is anticipatory, in that  
22 the proposal includes costs for remedial work Hydro anticipates will be required after the  
23 full inspection is complete, and that 644 person hours is the estimated redundant labour  
24 required if refurbishment is not completed at the same time as the inspection. Hydro  
25 submits that the most prudent course is to be prepared to complete necessary  
26 refurbishment at the same time as dismantling occurs for inspection, both to achieve the  
27 synergistic efficiencies found by completing the work at the same time and to be in a  
28 position to immediately respond if identified deficiencies are so severe in nature that the

1 structure cannot be put back into service until such deficiencies are remedied. Should the  
2 remedial work be less costly than that budgeted, this project will, of course, be delivered  
3 under budget.

4

5 The Consumer Advocate suggests that the elimination of a previous issue with respect to  
6 hardening of grease on the stem screws is the essence of the problem that this project is  
7 intended to rectify. This is incorrect. Both the Hatch and Weir reports include  
8 recommendations, as detailed in the response to PUB-NLH-48, with scopes that far exceed  
9 lubrication of stem screws, and Hydro submits that meeting these recommendations is  
10 necessary for the reliability of this critical spillway structure.

11

12 With reference to the Industrial Customers' and the Consumer Advocate's references to the  
13 placing of this project in the priority ranking, Hydro reiterates that the prioritization  
14 methodology is a screening tool, and each project proposed in the 2012 Capital Budget  
15 Application met the screening test, and justification has been provided for each project.  
16 The Industrial Customers' emphasis on where a project places suggests reliance on the  
17 prioritization for something other than the purpose for which it was designed. Arbitrarily  
18 dropping the lowest ranked project is not a prudent manner of considering and deciding  
19 upon a utility's capital budget and it is Hydro's submission that this approach should be  
20 rejected in favour of a careful consideration by the Board of all proposed projects based  
21 upon their individual merits.

22

23 **4.2 Replace Emergency Diesel Generator, page B-25, (\$894,100)**

24

25 This project is required to replace obsolete equipment required for the reliable and safe  
26 supply of power. The original manufacturer no longer supports the existing model (1967)  
27 and Hydro is unable to reliably secure spare parts as required. Additionally, and most  
28 important, the existing 200 kW diesel generator is undersized for the station services it is  
29 required to supply. Rather than upgrade the diesel unit once this deficiency was identified,

1 Hydro chose to demonstrate its commitment to providing least cost power by instituting a  
2 manual work-around procedure. That practice resulted in safety issues, both by requiring  
3 that essential loads be manually tripped off and that operators work without lighting in an  
4 enclosed space. As a result, Hydro is proposing to increase the size of the unit now that  
5 replacement is otherwise required.

6

7 The Industrial Customers refer to the “rare black start event”. The purpose of the  
8 emergency genset, as indicated in Section 3.12, Operating Regime, of the report entitled  
9 “Replace Powerhouse One Emergency Diesel Generator, Bay d’Espoir”, is to act as a standby  
10 unit for use when no other power is available in the powerhouse. That such use is rare is  
11 fortuitous, but it would be imprudent in the extreme to rely upon our good fortunes to date  
12 and to ignore the need to be able to successfully respond to a black start condition in the  
13 largest generating facility on the Island Interconnected System. It is also unreasonable to  
14 continue to endanger staff by requiring them to interact with hot and moving parts of the  
15 diesel genset, at times with only a flashlight<sup>7</sup>.

16

17 Again, the Industrial Customers refer to the placing of this project in the priority ranking.  
18 Hydro reiterates that the prioritization methodology is a screening tool and each project  
19 proposed in the 2012 Capital Budget Application met the screening test, and justification  
20 has been provided for each project. The Industrial Customers’ emphasis on where a project  
21 places suggests reliance on the prioritization for something other than the purpose for  
22 which it was designed.

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<sup>7</sup> Replace Powerhouse One Emergency Diesel Generator, Bay d’Espoir report, Page 7.

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**4.3 Perform Wood Pole Management Program, page B-36 (\$2,519,300)**

Hydro has chosen the Wood Pole Line Management (WPLM) program as a means to assist in the management of its 26,000 transmission line poles. This project was first approved by the Board in its Order No. P.U. 53 (2004), at which time it observed as follows:

This approach is a more strategic method of managing wood poles and conductors and associated equipment and [the Board] is persuaded that the new WPLM Program, based on Reliability Centered Maintenance (RCM) principles, will lead to an extension of the life of the assets, as well as a more reliable method of determining the residual life of each asset. One of the obvious benefits of RCM will be to defer the replacement of these assets thereby resulting in a direct benefit to the ratepayers.

The WPLM program continues to be a means of using testing (both destructive and non-destructive) to identify poles that are subject to decay so that they can be removed from service before they fail. This decay occurs through the normal aging process of the poles, the exposure of the poles to the elements, and due to the decreased levels, over time, of preservative in the poles. The aim of the program is to ensure that deteriorated poles are identified and retreated or replaced before they fail in service, thereby avoiding more expensive repairs, rebuilds and service outages, and dangers to lineworkers.

The Industrial Customers make reference to a sentence found at Tab 13, Volume of the Application that refers to the fact that two full inspection cycles will be required to give statistically meaningful data as to the success of the program. While Hydro cannot provide such data at this stage, this does not suggest, much less establish, that the best available information as to the program's efficacy does not support the program. The success of Hydro's WPLM program is borne out by the ability of its wood pole transmission lines to withstand severe ice storms that exceed the design parameters of the poles. Hydro had already replaced poles in an area affected by an ice storm during its first WPLM inspection cycle. By its nature, the WPLM program is a proactive means of preventing transmission line failures due to deteriorated poles. Also, it allows Hydro to replace only those poles that



1 are determined to be at risk of failure through its testing procedures. The combined  
2 advantages of avoiding failures in service, which would otherwise result in customer  
3 outages and expensive emergency repairs, and extending the age of the replacement of  
4 poles by selecting those that are determined through the testing to have deteriorated to a  
5 point where they are at risk of failure, fully justify this project.

6

7 In their submission, the Industrial Customers make reference to the good performance of  
8 Hydro's wood poles to date, refer to PUB-NLH-63, and state that Hydro expects to reject  
9 only 2.6% of the 1,685 poles inspected. With respect, this misses the point. The alternative  
10 to a wood pole testing program that investigates and measures a pole's remaining life is a  
11 simple visual inspection or an aged-based replacement approach that does not utilize the  
12 information that can be obtained through testing. Overlooking poles that will prematurely  
13 fail in service or replacing poles while they still have remaining life disregards an available,  
14 intelligent methodology that enables the cost effective, safe and reliable management of  
15 Hydro's 26,000 wood transmission poles.

16

17 **4.4 Upgrade Transmission Line Access Trails, page C-136 (\$313,000)**

18

19 Hydro's transmission maintenance crews and contractors access transmission lines via  
20 transmission access trails, which are in varying condition. Some of these conditions pose  
21 serious safety concerns, and some have environmental concerns. The Industrial Customers  
22 contend that this project should not be approved as Hydro does not own the land upon  
23 which the access trails are situated. Hydro refers the reader to Section 3.1.3 above, which  
24 refers to paragraph 78(2)(f) of the Act. This provision provides the Board with the clear  
25 authority to rule that a utility may include in its rate base costs incurred for plant which it  
26 uses even where it does not own the underlying asset.

27

28 Both the Consumer Advocate and the Industrial Customers appear to be suggesting that the  
29 absence of a large number of safety incidents or accidents which can be directly attributed

1 to the steepness of the hill slopes or approach and exit slopes indicates that nothing needs  
2 to be done to make the trails safer. Hydro's approach to addressing safety concerns that  
3 have arisen from its transmission access trails are multi-faceted. In addition to this capital  
4 budget proposal, Hydro has taken measures designed to provide training to ensure safe  
5 practices are followed and to generally reduce human error to deal with inappropriate and  
6 improperly maintained equipment, all of which is intended to reduce employees' likelihood  
7 of being injured<sup>8</sup>. As well, the Industrial Customers appear to be correlating this project  
8 with a lack of maintenance on the trails. As can be deduced from Hydro's responses to IC-  
9 NLH-16, IC-NLH-17 and PUB-NLH-119, the work performed by the ground maintenance  
10 crews would have no impact on the access trail slopes or other problems that cannot be  
11 addressed through maintenance work. Hydro has in fact addressed the Industrial  
12 Customers' concerns regarding operational issues<sup>9</sup> by reinstating maintenance on the  
13 trails since 2008<sup>10</sup> and by reinforcing safety measures<sup>11</sup>. The proposed capital project to  
14 improve the trails is the third required measure to ensure safety of Hydro personnel and  
15 contractors before, rather than after, the condition of the trails cause a severe injury or a  
16 fatality.

17

18

#### 19 **4.5 Legal Survey of Primary Distribution Line Right of Way page D-98 (\$197,900)**

20

21 This project is required to ensure Hydro has proper legal access to distribution lines located  
22 on Crown Lands. Sections 31 and 32 of the *Lands Act*, S.N.L. 1991, c. 36, make it an offence  
23 to possess crown lands without specific permission or grants of right and subject the illegal  
24 possessor to the right of the Crown to force the removal of structures from the affected  
25 crown lands within 60 days of receiving a notice to so remove them.

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<sup>8</sup> IC-NLH-20

<sup>9</sup> Industrial Customer Submission of October 7, 2011, page 27, lines 18-22.

<sup>10</sup> IC-NLH-17

<sup>11</sup> IC-NLH-20

1 The Consumer Advocate has expressed concern over the level of spending proposed in this  
2 Application, rather than taking exception to the project itself. The suggestion has been  
3 made to keep spending at the levels that were incurred between 2006 and 2010. From the  
4 amount of distribution line surveyed in 2010 (89 km), it would appear that continuing to  
5 proceed at the pace permitted by that level of expenditure would mean that the remaining  
6 2,370 km of line would not be finished for more than 25 years. Meanwhile, Hydro remains  
7 in violation of the *Lands Act*. Hydro submits that the budget for the 2012 Application is  
8 properly based on the cost of an external surveyor and that this project is required to  
9 secure property rights (easements) over the crown lands Hydro occupies for its distribution  
10 lines.

1 **5 Conclusion**

2 Hydro submits that the projects included in its revised Application are all prudent and  
3 necessary to provide reasonable, adequate, safe and reliable service to its customers, at  
4 least cost. Hydro asks that the Board approve its 2012 capital budget as revised.

5

6 Hydro further asks that the Board approve its 2010 rate base in the amount of  
7 \$1,484,659,000.

8

9

10

11 ALL OF WHICH IS RESPECTFULLY SUBMITTED on behalf of the Applicant, Newfoundland and  
12 Labrador Hydro, this 12<sup>th</sup> day of October, 2011.

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