

**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 2012 capital budget pursuant to s. 41(1) of the Act; (2) its 2012 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 2012 pursuant to s.41 (5) of the Act and for an Order pursuant to s. 78 of the Act fixing and determining its average rate base for 2010.

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**BRIEF OF ARGUMENT  
OF  
NEWFOUNDLAND POWER INC.  
NOVEMBER 24, 2011**

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1   **1.0   INTRODUCTION**

2   Newfoundland and Labrador Hydro’s (“Hydro”) 2012 Capital Budget Application (the  
3   “Application”) was filed with the Board of Commissioners of Public Utilities (the “Board”) on  
4   August 3<sup>rd</sup>, 2011. Newfoundland Power filed a Notice of Intention to Participate in the hearing  
5   of the Application on August 23<sup>rd</sup>, 2011.

6  
7   On August 25<sup>th</sup>, 2011, the Board notified the parties in writing that it would conduct the review  
8   of the Application in two phases. In Phase 1, the Board would consider all proposed capital  
9   expenditures that are unrelated to the Holyrood Thermal Generating Station (“Holyrood”) and  
10   any projects related to Holyrood that are either urgent or are agreed by the participating parties to  
11   be included in Phase 1. Phase 2 would address all Holyrood projects not included in Phase 1,  
12   and would include a technical conference on the condition of Holyrood.

13  
14   On August 31<sup>st</sup>, 2011, Hydro filed with the Board a list of its proposed 2012 capital projects to  
15   be included in Phases 1 and 2. The Phase 1 projects set out therein consisted of all non-  
16   Holyrood projects and all multi-year Holyrood projects that were approved by the Board in  
17   previous Capital Budget Applications. The Phase 2 projects consisted of all new Holyrood  
18   projects submitted in the Application.

19  
20   Subsequently, on September 7<sup>th</sup>, 2011, the Board confirmed the proposed capital projects to be  
21   included in Phase 1 based on the list filed by Hydro on August 31<sup>st</sup>. On September 19<sup>th</sup>, 2011,  
22   the Board issued revised schedules for the hearing of both Phases 1 and 2.

1 The Board has since determined that a proposed 2012 capital project in relation to the upgrade of  
2 the transmission line corridor between Bay D’Espoir and Hydro’s Western Avalon substation  
3 will be considered in Phase 3 of this proceeding.

4

5 This is Newfoundland Power’s submission with respect to the hearing of Phase 2 of the  
6 Application.

7

8 **2.0 OVERVIEW**

9 The Application proposes total capital expenditures for 2012 of approximately \$71.4 million. Of  
10 that total, approximately \$16.5 million in proposed 2012 capital expenditures on Holyrood are  
11 included in Phase 2 of this proceeding.

12

13 Future expenditures associated with the 2012 projects included in Phase 2 are projected at  
14 approximately \$14.3 million, for a total of \$30.8 million in planned capital expenditures  
15 associated with the Holyrood projects included in Phase 2 of this proceeding.

16 Reference: 2012 Capital Budget Phase II: Total Capital Projects Overview, Page A – 17.

17

18 **3.0 LEGISLATIVE FRAMEWORK**

19 Section 37(1) of the *Public Utilities Act* states that a public utility shall provide service and  
20 facilities that are reasonably safe and adequate and just and reasonable. Section 37(1) is a  
21 cornerstone of Hydro’s and Newfoundland Power’s obligation to serve their customers.

1 Section 3(b) of the *Electrical Power Control Act, 1994* states that all sources and facilities for the  
2 production, transmission, and distribution of power in the province should be managed and  
3 operated in a manner that would result in:

- 4 i. the most efficient production, transmission, and distribution of power,
- 5 ii. consumers in the province having equitable access to an adequate supply of  
6 power, and
- 7 iii. power being delivered to customers in the province at the lowest possible cost  
8 consistent with reliable service.

9  
10 Section 3(b) does not create a hierarchy between these three principles; rather, each is equally  
11 important in the management and operation of electrical facilities in the province.

## 12 13 **4.0 NEWFOUNDLAND POWER'S SUBMISSION**

### 14 ***4.1 2012 Capital Budget***

15 The principal question for the Board in its consideration of Phase 2 of this proceeding is whether  
16 Hydro's proposed capital expenditures on Holyrood in 2012 is reasonably required for it to meet  
17 its statutory obligation to provide reasonably safe and adequate, least cost service to its  
18 customers, including Newfoundland Power.

19  
20 Newfoundland Power does not oppose any of the proposed 2012 capital expenditures included in  
21 Phase 2 of this proceeding.

1    **4.2    *The Uncertain Future of Holyrood***

2    The Board is required to approve capital expenditures, including those on Holyrood, that are  
3    shown to be necessary to ensure the safe and reliable operation of the plant for as long as it  
4    remains an essential source of supply to the island interconnected system. However, any  
5    proposed capital expenditures on Holyrood must necessarily be considered in light of the  
6    uncertainty surrounding the future role of Holyrood in the island interconnected system.

7  
8    In the absence of an alternative source of supply for the island interconnected electrical system,  
9    Holyrood will continue to be required to supply base load on the island well into the future.

10   However, if the Lower Churchill project is sanctioned, and proceeds along the currently  
11   anticipated timeline, Holyrood will only be required to operate as a generator to meet island  
12   system base load requirements until 2016 for certain, and thereafter on a standby basis until  
13   2020.

14  
15   From 2020 onwards, at which point the reliability of the high-voltage direct current transmission  
16   link between Labrador and the island will presumably be assured, Holyrood will cease to operate  
17   as a generator, and will operate in synchronous condenser mode only. At that point, the  
18   generating unit and all auxiliary systems not required for synchronous condenser operation will  
19   be decommissioned.

20   Reference:    2012 Capital Projects Overview, pages 9 – 10; 2012 Capital Plan, pages 18 – 22;

21  
22   Such a fundamental change in the role and mode of operation of Holyrood has implications for  
23   the regulation of capital expenditures on the facility. Simply put, the Board must consider the

1 extent to which capital expenditures that might, in the normal course, be justified to extend the  
2 life of Holyrood indefinitely may be appropriate in the context of a thermal generating plant with  
3 a known end-of-life date.

4

## 5 **5.0 PROCESS CONSIDERATIONS**

### 6 **5.1 General**

7 In order to properly assess the appropriateness and necessity of future proposed capital  
8 expenditures on Holyrood in this context, it is necessary for the Board and interested parties to  
9 have an understanding of a variety of matters. It is in the best interest of Hydro and its customers  
10 that such understanding be acquired by the Board and interested parties by means of an efficient  
11 and effective regulatory process.

12

13 To assess Holyrood capital expenditure proposals under a variety of possible scenarios, it is  
14 necessary to understand which components of the plant are required to be maintained under the  
15 various operating scenarios; the relevant considerations regarding the condition of those  
16 components; and what are the minimum capital expenditures necessary to ensure the safe,  
17 reliable operation of Holyrood in accordance with its changing role and the finite life expectancy  
18 of significant components of the plant.

19

### 20 **5.2 Volume of Documentation in This Proceeding**

21 Excluding formal submissions, such as the Application and Schedules, Hydro's documentation  
22 filed with respect to the Holyrood projects included in Phase 2 in this proceeding consists of the  
23 following:

- 1 1. *2012 Capital Project Overview*, Volume I, 36 pages;
- 2 2. *2012 Capital Plan*, Volume I, 40 pages;
- 3 3. Report, *Plan of Projected Operating Maintenance Expenditures 2012 – 2021 For*  
4 *Holyrood Generating Station*, Volume II, Section J, 19 pages;
- 5 4. Report, *Unit 1 and Unit 2 Generator Stator Rewind: Holyrood Thermal Generating*  
6 *Station*, Volume I, Tab 2, 46 pages including appendices;
- 7 5. Report, *Refurbishment of the Marine Terminal: Holyrood Thermal Generating Station*,  
8 Volume I, Tab 2, 220 pages including appendices;
- 9 6. Report, *Replace Fuel Oil Heat Tracing: Holyrood Thermal Generating Station*, Volume  
10 I, Tab 2, 63 pages including appendices;
- 11 7. Report, *Install Operator Training Simulator: Holyrood Thermal Generating Station*,  
12 Volume I, Tab 2, 19 pages;
- 13 8. Report, *Upgrade Unit 2 Stack Breeching: Holyrood Thermal Generating Station*, Volume  
14 I, Tab 2, 124 pages including appendices;
- 15 9. Report, *Upgrade Generating Unit 2 Forced Draft Fan Ductwork: Holyrood Thermal*  
16 *Generating Station*, Volume I, Tab 2, 61 pages including appendices;
- 17 10. Report, *Unit 1 Turbine Generator Major Overhaul: Holyrood Thermal Generating*  
18 *Station*, Volume I, Tab 2, 51 pages including appendices;
- 19 11. Report, *Condition Assessment and Life Extension: Holyrood Thermal Generating Station*,  
20 Volume I, Tab 2, 206 pages including appendices;

21 In addition to the above-listed items, on October 14<sup>th</sup>, 2011, the Board notified the parties to the  
22 Application that the following item was entered on the record of the proceeding:

- 23 1. AMEC Report – *Phase 1 of the Holyrood Condition Assessment and Life Extension*  
24 *Study*, dated January 28<sup>th</sup>, 2011, 718 pages including appendices.

25 The documents contained in the record of Phase 2 of this proceeding directly related to proposed  
26 capital expenditure on Holyrood consist of an approximate total of 1,600 pages.<sup>1</sup> This volume of  
27 material provides a high level of detail with respect to the proposed expenditures. However, the  
28 submissions lack any summary overview of the expenditure proposals in the context of

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<sup>1</sup> Based on document pagination. Does not include formal application and schedules.

1 Holyrood's evolving role. Such an overview would, in Newfoundland Power's submission,  
2 facilitate reasonable consideration of capital expenditure proposals for Holyrood.

3  
4 Looking forward, the Application seeks capital expenditure approval for Phase 2 of the condition  
5 assessment and life extension study of Holyrood. This project is described as a detailed  
6 investigative analysis of certain equipment and systems at Holyrood that have been determined  
7 by Hydro, in consultation with engineering consultancy AMEC, to require more detailed  
8 investigation than was carried out in Phase 1 of the condition assessment and life extension  
9 study.

10  
11 Hydro has indicated that recommendations arising out of Phase 2 of the study will be used to  
12 identify further capital expenditure requirements for Holyrood over the next number of years. In  
13 addition, other significant capital expenditures at Holyrood, including major overhauls of Units 2  
14 and 3, are contemplated in 2014 and 2015.

15 Reference: Volume II, Tab 25, pages 5 – 7.

16

### 17 **5.3 *Making Sense of It All***

18 Given the volume of Holyrood-related material filed in this proceeding, the complexities  
19 associated with Holyrood's uncertain future and the planned continuation of the condition  
20 assessment and life extension study, it is a reasonable expectation that similar volumes of  
21 material will be filed in future capital expenditure applications. In order to facilitate reasonable  
22 consideration of such material, Newfoundland Power submits that such filings should be  
23 required to be accompanied by a contextual overview of the proposed expenditures.

1 Such overview should contain the following:

- 2 1. an updated outlook regarding anticipated changes in the role of Holyrood on the system;
- 3 2. an updated schedule of anticipated changes in Holyrood operations that may reasonably
- 4 be expected to have an impact on capital expenditure requirements;
- 5 3. a summary description of all proposed Holyrood capital projects, including an
- 6 explanation of how such projects relate to one another and whether such projects may be
- 7 impacted by decisions yet to be taken regarding Holyrood's role on the system;
- 8 4. a summary guide to all internal and external reports filed in support of the capital
- 9 expenditure proposals, summarizing alternatives considered and recommendations made;
- 10 and
- 11 5. an explanation of the necessity of all proposed capital expenditures in the context of the
- 12 anticipated changes in Holyrood operations.

13

## 14 **6.0 CONCLUSIONS**

15 Newfoundland Power does not oppose any of the proposed 2012 capital expenditures on  
16 Holyrood set out in pages A-17 and A-18 of the Application.

17

18 Newfoundland Power submits that the Board should order that, with all future applications for  
19 approval of capital expenditures associated with Holyrood, Hydro include an overview, as  
20 described above, providing an updated outlook for the Holyrood plant and justifying the  
21 proposed expenditures in the context of that outlook.

1 **RESPECTFULLY SUBMITTED** at St. John's, Newfoundland and Labrador, this 24<sup>th</sup> day of  
2 November, 2011.

3  
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