

1 Q. **Section H - Capital Expenditures 2007-2016**

2 Please provide a detailed explanation as to why the overall proposed capital budget
3 for 2012 exceeds the actual expenditures for 2007 by 146%.

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6 A. The table below summarizes the 2007 actual and budgeted capital expenditures, as
7 well as the 2012 capital budget:

	2007 Actual (\$000's)	2007 Budget (\$000's)	2012 Budget (\$000's)
Generation	9,636	13,354	28,971
Transmission and Rural Operations	19,150	19,544	43,287
General Properties	6,883	7,523	7,765
Major Overhauls	0	0	6,840
Allowance/Contingency	-	1,000	1,000
Total	35,669	41,421	87,863

8 **Generation Projects**

9 The budgeted capital expenditure for generation projects in 2012 exceeds the
10 actual 2007 expenditures by approximately 200%.

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12 The largest contributor to the difference is due to increases in capital attributed to
13 hydraulic generation. On a budget-to-budget comparison basis, in the 2007 capital
14 budget, there was only one project that exceeded \$500,000. By contrast, in 2012
15 there are four such projects. One project in the 2012 capital budget in particular,
16 Rewind Stators Units 1, 3 and 4 – Bay d'Espoir, is budgeted to be 3 ½ times the
17 entire 2007 capital budget for hydraulic generation. Compared to the 2007
18 hydraulic budget, the 2012 capital budget for hydraulic projects is roughly \$10
19 million higher.

1 In the area of thermal generation, the difference between the 2007 capital budget
2 and the 2012 capital budget is approximately \$4 million. In 2007, the largest single
3 budgeted capital item was a condition assessment proposed for \$3.3 million. By
4 contrast, in 2012 the largest budgeted capital item is the marine terminal upgrade,
5 valued at \$5.9 million. In 2007, there were five projects with estimates exceeding
6 \$500,000, while in 2012 there are eight such projects. Furthermore, the projects in
7 2012 are targeted towards specific upgrades and improvements needed at
8 Holyrood to meet the requirements of the plant until 2020, whereas in 2007, the
9 primary capital expenditure was related to understanding the condition of the
10 facility.

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12 In the area of gas turbines, the 2012 capital budget exceeds that of 2007 by \$2.5
13 million. In 2007, there were two projects targeted towards gas turbines (at
14 Hardwoods only), both of which were valued well below \$1 million, whereas in
15 2012, the plant life extension for Hardwoods is valued at \$3.4 million.

16 17 **Transmission and Rural Operations**

18 The budgeted capital expenditure for Transmission and Rural Operations projects in
19 2012 exceeds the actual 2007 expenditures by approximately 126%.

20 In 2007, the focus of capital work was on wood pole replacement and insulator
21 replacements. 2007 budgeted costs for these two projects accounted for \$4.2
22 million, and represented roughly half of the total 2007 capital budget for
23 Transmission and Rural Operations. In the 2012 capital budget, transmission
24 related projects account for roughly the same dollar value as that in the 2007
25 capital budget. However in the areas of terminal station costs and distribution,
26 there are marked increases in capital requirements in the 2012 budget. In the area
27 of terminal station costs, there is an approximate 10-fold increase in capital
28 requirements. Key contributors to this increase are the need for the new

transformer at Oxen Pond, the need for the terminal station upgrade for Labrador City, and the need to address issues associated with circuit breakers and power transformers. In the area of distribution, there is an approximate \$10 million increase in the 2012 capital budget compared to the 2007 budget, with increases due to the need for the Labrador City voltage conversion, the need for several significant feeder upgrades in 2012, and a doubling of the anticipated costs to provide service extensions.

Collectively, the above noted items account for the majority of the increase between 2007 and 2012. It should be noted that the increase in capital needs is driven by two main areas – asset management and growth.

Under its asset management approach, Hydro establishes the condition of assets and then evaluates the performance expectation of those assets versus that condition to develop plans for ensuring that the equipment delivers the expected level of service. For example, condition assessment of the stators at the Bay d’Espoir facility highlighted the state to which the windings had deteriorated/aged, and is driving the need for the proposed rewinds. As assets continue to age, expenditures such as those needed for the Bay d’Espoir stators and the static exciters for the various generating stations will continue to play a prominent role in the formation of capital plans.

Load growth also plays a significant role in the increase in capital requirements. The requirement for the transformer at Oxen Pond and the capital expenditures in Labrador West highlight the impact that the load growth has had on the ability of the existing systems. As load continues to grow, Hydro’s capital program will reflect its efforts to continue to deliver on its mandate of providing safe, reliable, least cost power to its customers.