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October 15, 2014

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:

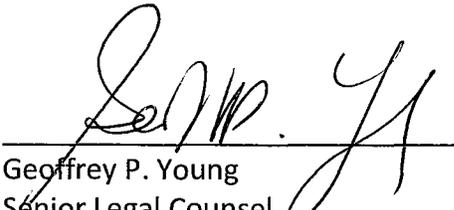
Re: Newfoundland and Labrador Hydro – 2015 Capital Budget Application

Please find enclosed the original plus 12 copies of Hydro's written submission with regard to its 2015 Capital Budget Application.

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
Leanne O'Leary – Cox & Palmer

A REPORT TO
THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**2015 CAPITAL BUDGET APPLICATION
FINAL SUBMISSION**

NEWFOUNDLAND AND LABRADOR HYDRO

October 15, 2014



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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 2015 capital budget pursuant to s.41(1) of the Act; (2) its 2015 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 2014 pursuant to s.41 (5) of the Act

TO: The Board of Commissioners of Public Utilities (“the Board”)

1 **1 Introduction**

2 Newfoundland and Labrador Hydro (“Hydro”) filed its 2015 Capital Budget with the Board of
3 Commissioners of Public Utilities on August 1, 2014 seeking approval under Section 41 of the
4 *Public Utilities Act* of \$79,931,000 in capital expenditures. On October 7, 2014, this amount was
5 revised downward to \$77,092,200.

6
7 Hydro seeks approval of its 2015 Capital Budget projects and in support of that Application,
8 makes the following submissions.

9
10 **2 Legislative Framework**

11 Hydro is required by Section 37 of the Act to provide electrical service and facilities that are
12 safe and adequate and just and reasonable. Section 41 of the Act requires Hydro to obtain
13 approval from the Board for its annual capital budget. In addition, Section 3 of the *Electrical*
14 *Power Control Act, 1994* requires that Hydro provide electrical service that is efficient, that is
15 provided such that its customers have equitable access to an adequate supply of power, and
16 that is provided at least cost consistent with reliable service.

17
18 The projects proposed in Hydro's 2015 capital budget are necessary to enable Hydro to comply
19 with these legal duties and are required to enable Hydro to maintain its infrastructure and meet
20 its statutory obligations to provide electrical service and facilities that are safe and adequate
21 and just and reasonable.

1 **3 Level of Expenditures**

2 In assessing the projects being proposed, Hydro has ensured that it is complying with the power
3 policy provisions of Section 3 of the *Electrical Power Control Act, 1994* which require that
4 electrical service is managed and delivered in a manner that is efficient and at the least cost
5 consistent with reliable service. Choosing least cost options and managing and operating
6 power facilities in the most efficient manner will result in the delivery of power at rates that,
7 over the longer term, are as low as they can reasonably be. Given the aforementioned
8 legislative requirement, choosing capital projects always requires an appreciation of the
9 appropriate balance between reliability and cost.

4 Specific Projects

Hydro is seeking approval of all projects for which it applied, as revised in its aforesaid letter of October 7, 2014. For efficiency and brevity, the projects dealt with in this submission are restricted to those upon which the Intervenor have made submissions.

4.1 Section B, Tab 20, Replace Accommodations and Septic System, Ebbegunbaeg

The issues raised by the Intervenor in connection with this project appear to focus on the standard to which the accommodations are being built, not on the need for accommodations at the site. The requirement for accommodations arises from the logistical challenges of the remoteness of the site (NP-NLH-042) and from the costs of helicopter travel (NP-NLH-047). Based upon the future helicopter travel cost estimates cited in NP-NLH-047, the accommodations provide positive value to Hydro's customers, in fact the costs will be saved within the period of 2017-2020.

A review of the cost breakdown provided in NP-NLH-042 puts the costs of the project in perspective and allows the Board to focus on the degree to which the challenged standard of the accommodations affects the overall costs of the project. Of the \$1,550,800 project cost, only \$394,800 pertains to the cost of the actual structure; much of the balance pertains to costs of construction in a remote location including costs associated with temporary bridges and road upgrades. The other category of project costs, \$196,500, pertains to site preparation and septic work, which would be common to the construction of this accommodation regardless of whether it is a single or double occupancy configuration.

It can be reasonably assumed that if accommodations are required for six employees that the overall size of the building, the footprint, would be broadly similar whether accommodations are provided in single or double occupancy accommodations. The savings that would be attributable to providing employee accommodations that are below the standard proposed would, therefore, likely be very modest indeed.

1 There is no evidence that double room occupancy remains an accepted or acceptable standard
2 for workplace accommodations in modern times. The only evidence as to the acceptability of
3 double occupancy rooms is that when the existing facility was built in the 1960's, a double
4 room standard appeared to have applied because the present structure was built to that
5 standard.

6
7 Hydro determined that the accommodations at the site were required to be replaced, that it
8 was cost effective and efficient to do so, and it properly sought the appropriate current
9 standard to which to build the facility, taking into account the standards commonly found in
10 industrial sites. It found written standards in two Canadian jurisdictions, Alberta and British
11 Columbia—information as to these was provided by Hydro in NP-NLH-044.

12
13 It is implied in the Intervenors' submissions that there might be a different industrial standard
14 for intermittent accommodations than there is for continuous accommodation. There is no
15 evidence of such a different standard for non-perpetual employee accommodations and, in
16 Hydro's view, in the absence of evidence that some lesser standard exists, the Board should be
17 reluctant to determine that double occupancy would "likely suffice". This is conjecture and it
18 does not inform the Board on this matter.

19
20 This project is very similar to another project Hydro undertook to provide reasonable,
21 intermittent accommodations in remote sites to support its hydroelectric facilities (Order No.
22 P.U.36(2008), see at pages 11-13). In approving the Cat Arm accommodations project the
23 Board said:

24 *The net present value analysis shows that replacement of the facility is more cost*
25 *effective than continuing with the present arrangement of off-site*
26 *accommodations. The Board is satisfied that this project will result in*
27 *accommodation facilities that meet current building standards and which will*
28 *provide a reasonable level of comfort and safety for employees and contractors.*

1 **4.2 Refurbish Generation Unit, Snook’s Arm, page D-49**

2 This project is proposed to determine specifically the works and costs associated with the
3 refurbishment of this hydroelectric facility. The facility has a relatively new penstock,
4 completed in 2007. The refurbishment to be undertaken using the results of this study would
5 complete the bulk of the refurbishment of this plant to enable it to continue to operate reliably
6 for many years. It is not anticipated that the study will show that the costs of the refurbishment
7 will render the refurbishment work to be uneconomic, however, if once completed the detailed
8 refurbishment plan indicates this to be the case, the refurbishment work will not proceed.

9

10 It is prudent to perform this study in advance of carrying out the refurbishment work to ensure
11 a cost effective and well planned project. In the event that the estimated costs of
12 refurbishment fall outside an expected range, there will be an opportunity to reconsider the
13 undertaking of the work prior to commencement. As stated on page D-61: “Once the
14 assessment is complete and the full scope is known then a cost benefit analysis will be
15 performed to ensure the selected option is the least cost option.”

16

17 Hydro submits that this is the most appropriate way to proceed with a facility and a project
18 such as this one. Once the additional amount of information is available and before a proposal
19 is made to proceed with this refurbishment, a cost/benefit analysis will be carried out to verify
20 that it is economic.

21

22 **4.3 C-15 Refurbish Access Road – Cat Arm**

23 This project is similar to others the Board has approved in recent years to ensure the continued
24 safe and reliable travel upon Hydro’s access roads to its hydroelectric facilities (see e.g.
25 *Upgrade North Cut-off Dam Access Road Bay d’Espoir*, Order No. P.U.42(2013) at pages 8-10;
26 *Upper Salmon and Burnt Dam Access Roads*, Order No. P.U. 35(2006); and *Star Lake Access*
27 *Road - Phase 1* in Order No. P.U. 2(2012)).

1 The evidence before the Board is that the Cat Arm Road was built by Hydro at the time of the
2 project construction, that it has been maintained over the years but at present is in need of
3 refurbishment to enable Hydro employees and contractors to use the road safely on a daily
4 basis. There is also some incidental public use of the road (from Hydro's Report at Vol. II tab 7
5 page 1):

6 *While the road continues to be useable and is used on a daily basis by plant*
7 *personnel, it has deteriorated in places. The road is also used by the public. This*
8 *results in increased wear and tear on Hydro vehicles and decreased safety while*
9 *driving.*

10

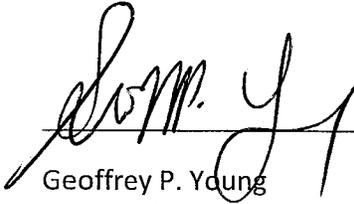
11 The Island Industrial Customers stated that the road should not be paid for by customers where
12 the road is used by the public. If there were evidence that this public use was extensive or was
13 the cause of much of the deterioration of the road, this might be a valid perspective. The
14 evidence is that the road is used daily by plant personnel and is used regularly by Hydro's
15 maintenance staff. It is also used by the public. The combination of this usage has resulted in
16 decreased safety and vehicle wear. The road must be maintained as passable and safe to allow
17 access to the Cat Arm Plant by Hydro's employees and contractors. There is no evidence that
18 the public's use of the road is more than incidental to Hydro's use. This road is in a remote and
19 relatively sparsely populated part of the province. The Board may take notice that the
20 incidental use by the public of roads that provide access to remote areas for recreational uses is
21 not uncommon regardless of whether the roads were built by either of the electrical utilities or
22 by other industries such as forest industry companies.

23

24 Hydro disagrees that its form of land title, an easement, is in any way insufficient or inadequate
25 for its purposes or should disentitle Hydro from including the costs of the road refurbishment in
26 rate base. While it is true that exclusive title to the road would enable Hydro to prevent others
27 from using the road, Hydro has neither need nor present intention to exclude the public from
28 using the road so obtaining such a form of title is unnecessary and should not be a prerequisite
29 to its inclusion in rate base.

1 **ALL OF WHICH IS RESPECTFULLY SUBMITTED AND DATED** at St. John's, in the Province of
2 Newfoundland and Labrador this 15th day of October, 2014.

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