

Office of the Consumer Advocate

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November 25, 2022

Board of Commissions of Public Utilities
120 Torbay Road, P.O. Box 2140
St. John's, NL A1A 5B2

**Attention: G. Cheryl Blundon, Director of
Corporate Services / Board Secretary**

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro - 2023 Capital Budget Application

On July 13, 2022 Newfoundland and Labrador Hydro ("Hydro") submitted to the Public Utilities Board (the "Board") its 2023 Capital Budget Application ("2023 CBA"). In its Application Hydro is seeking Board approval for capital expenditures totaling \$90.8 million in 2023 comprised of "*single-year programs and projects for 2023, 2023 expenditures for multi-year proposals commencing in 2023, and 2023 expenditures for programs and projects approved in previous capital budget applications.*" Hydro notes that the total planned capital spend for 2023 is \$104.5 million which includes supplemental expenditures from the 2022 CBA and expenditures that Hydro "*anticipates filing subsequent to this Application*".

The Board has directed the Consumer Advocate to file its submission on Hydro's 2023 Capital Budget Application by November 25, 2022. This submission documents the Consumer Advocate's position on Hydro's 2023 Capital Budget Application.

COMMENTS OF THE CONSUMER ADVOCATE

The Consumer Advocate notes that Hydro does not yet have the capability to meet the requirements set out in the Provisional Capital Budget Application Guidelines, which were issued by the Board in December 2021 and effective as of January 2022. Hydro believes it has met the spirit and intent of the Provisional Guidelines. However, among other matters, Hydro is not yet able to quantify the impact that the projects included in the 2023 CBA will have on reliability. As stated in CA-NLH-049 "*Hydro is unable to quantify proposal impacts on reliability as it does not track reliability associated with many of its individual assets and therefore cannot provide the reliability mitigated per dollar spent metric.*" Neither is Hydro able to adequately quantify the risk of project deferral. Hydro has developed a Capital Risk Rating Matrix that determines risk mitigated per \$1 million spent, but the matrix requires further

development owing to a number of limitations and challenges.¹ For example, the Replace Peripheral Infrastructure project (i.e., printers and display units) has a risk mitigated per \$1 million score of 32.0 while the Salmon River Spillway project has a score of only 5.3. It seems unlikely that a failed printer would carry a much higher risk than a failed hydro project spillway.

In CA-NLH-122 Hydro acknowledges that it “*intends to continue to develop its Capital Risk Evaluation Matrix and intends to utilize this matrix as an input to its decision-making for capital projects going forward.*” Hydro proposes to improve “*its asset management by increasing the alignment of its Asset Management System with ISO 55001:2014 and will be implementing related near- and long-term asset management improvements*” (CA-NLH-047). Hydro has recently completed an Asset Management Needs and Readiness Assessment (2023 Capital Budget Overview, page 5) and expects to file the study with the Board during the first quarter of 2023 (CA-NLH-047) following completion of its internal stakeholder review. It is hopeful that a new asset management system will enable Hydro to meet the requirements set out in the provisional guidelines and reduce the overwhelming information asymmetry that the utilities now enjoy over the intervenors and the Board. Otherwise, Hydro will not be able to meet the burden of proof requirement set out in the guidelines.

The Consumer Advocate believes that Hydro has made a concerted effort to manage its spending in light of the elevated inflation environment that electricity consumers are facing and the extraordinary high cost and uncertainty brought on by the Muskrat Falls Project (see Reliability and Resource Adequacy Study – 2022 Update). It is understood that owing to this uncertainty, Hydro may need to file supplemental capital applications to extend the life of Holyrood TGS potentially to the year 2030. The costs associated with Muskrat Falls, Holyrood TGS, Bay d’Espoir Unit 8, the 5-year capital plans of Hydro and Newfoundland Power, and the amounts owed by customers in Hydro’s various deferral accounts could approach \$16,521,300,000 over the next 7 years.² This is an extraordinary amount of money on a system that serves about 280,000 electricity customers and dictates that only those projects that cannot be deferred should be pursued.

The Consumer Advocate notes that in spite of the significant supply challenges arising due to the uncertainty of the Muskrat Falls Project, Hydro has held its 2023 capital budget expenditures at levels comparable to those approved by the Board in recent capital budget applications. Hydro is seeking approval of \$90.8 million in its 2023 Capital Budget Application which compares to capital budget amounts approved by the Board for the 2022, 2021 and 2020 calendar years of \$84.2 million, \$107.5 million and \$107.6 million, respectively (CA-NLH-001).

In summary, the Consumer Advocate does not take issue with Hydro’s 2023 Capital Budget Application but urges the Board to finalize the Provisional Capital Budget Application Guidelines including a time-bound plan obliging the utilities to meet the requirements in a timely manner. Note that Hydro has not included projects in its 2023 Capital Budget Application relating to electrification, but “*anticipates filing a supplemental capital budget application in 2023 for the installation of two public direct current fast chargers for electric vehicles at an estimated cost of approximately \$0.3 million*” (CA-NLH-014). The Consumer Advocate remains opposed to Hydro/Newfoundland Power construction and ownership of

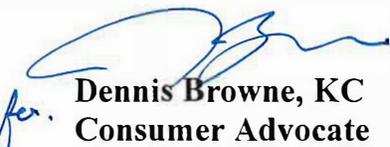
¹ Hydro identifies limitations and challenges relating to its Capital Risk Rating Matrix in PUB-NLH-004.

² See Consumer Advocate November 3, 2022 submission on Newfoundland Power’s 2023 Capital Budget Application.

utility-owned charging stations and passing the costs and risks on to the Province's electricity consumers, particularly in light of the considerable cost uncertainty documented in the Reliability and Resource Adequacy Study – 2022 Update.

Please contact the undersigned if you have any questions on this submission.

Yours truly,


Dennis Browne, KC
Consumer Advocate

Encl.

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cc

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