

HAND DELIVERED

September 22, 2017

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Ladies & Gentlemen:

Re: Newfoundland Power's 2018 Capital Budget Application – Brief of Argument

Enclosed are the original and 10 copies of Newfoundland Power's Brief of Argument.

For convenience, the Brief of Argument is provided on three-hole punched paper.

A copy of this letter, together with enclosure, has been forwarded directly to Ms. Tracey Pennell, of Newfoundland and Labrador Hydro and Mr. Dennis Browne, the Consumer Advocate.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,



Gerard M. Hayes
Senior Counsel

Enclosures

c. Tracey Pennell
Newfoundland and Labrador Hydro

Dennis Browne
Browne Fitzgerald Morgan & Avis



IN THE MATTER OF the *Public Utilities Act*, (the "Act"); and

IN THE MATTER OF capital expenditures and rate base of Newfoundland Power Inc.; and

IN THE MATTER OF an application by Newfoundland Power Inc. for an order pursuant to Sections 41 and 78 of the Act:

- (a) approving a 2018 Capital Budget of \$83,876,000;
- (b) approving certain capital expenditures related to multi-year projects commencing in 2018; and
- (c) fixing and determining a 2016 rate base of \$1,061,044,000.

**BRIEF OF ARGUMENT
OF
NEWFOUNDLAND POWER INC.**

SEPTEMBER 22, 2017

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1 **1.0 INTRODUCTION**

2 Newfoundland Power’s 2018 Capital Budget was filed with the Board of Commissioners of
3 Public Utilities (the “Board”) on July 7, 2017. The proposed 2018 Capital Budget of
4 \$83.9 million is lower than the 2017 Capital Budget of \$89.4 million, principally due to a
5 reduced requirement for expenditures associated with customer and load growth.

6

7 The 2018 Capital Budget Application (the “Application”) seeks an Order of the Board:

8 (i) pursuant to Section 41(1) of the *Public Utilities Act*, approving proposed 2018 capital
9 expenditures totalling \$83,876,000; (ii) pursuant to Section 41(1) of the *Public Utilities Act*,
10 approving proposed 2019 capital expenditures of \$17,314,000; (iii) pursuant to Section 41(1) of
11 the *Public Utilities Act*, approving proposed 2020 capital expenditures of \$3,845,000; (iv)
12 pursuant to Section 41(1) of the *Public Utilities Act*, approving proposed 2021 capital
13 expenditures of \$3,750,000; and (v) pursuant to Section 78 of the *Public Utilities Act*, fixing and
14 determining Newfoundland Power’s average rate base for 2016 in the amount of \$1,061,044,000.

15

16 **2.0 OVERVIEW**

17 To provide context for the Board’s consideration of the Application, this submission will (i)
18 review the legislative framework under which the Application is brought, (ii) address specific
19 compliance requirements, (iii) summarize the process engaged in by the Board and participants
20 in the consideration of the Application, (iv) address matters raised in the submissions of
21 intervenors, and (v) conclude with Newfoundland Power’s formal submissions with respect to
22 the Application.

1 **3.0 LEGISLATIVE FRAMEWORK**

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

5
6 Section 3(b) of the *Electrical Power Control Act, 1994* states that all sources and facilities for the
7 production, transmission, and distribution of power in the province should be managed and
8 operated in a manner that would result in:

- 9 (i) the most efficient production, transmission, and distribution of power,
- 10 (ii) consumers in the province having equitable access to an adequate supply of
11 power, and
- 12 (iii) power being delivered to customers in the province at the lowest possible cost
13 consistent with reliable service.

14
15 Section 3(b) does not create a hierarchy between these three principles; rather, each is equally
16 important in the management and operation of electrical facilities in the province.

17
18 Section 41(1) of the *Public Utilities Act* requires that Newfoundland Power submit to the Board
19 “an annual capital budget of proposed improvements and additions to its property” for the
20 Board’s approval.

21
22 Section 41(3) of the *Public Utilities Act* prohibits a utility from proceeding with an improvement
23 or addition in excess of \$50,000 or a lease in excess of \$5,000 per year without the Board’s prior
24 approval.

1 The principal focus of this proceeding is whether Newfoundland Power’s proposal for
2 \$83.9 million in capital expenditures in 2018, and related expenditures to 2021, is reasonably
3 required for it to meet its statutory obligation to serve its approximately 265,000 customers.

4
5 Newfoundland Power submits that its 2018 Capital Budget represents the capital expenditures
6 necessary to maintain its electrical system and to continue to meet its statutory obligations under
7 Section 37(1) of the *Public Utilities Act* and Section 3(b) of the *Electrical Power Control Act*,
8 *1994*.

9
10 **4.0 COMPLIANCE MATTERS**

11 **4.1 Board Orders**

12 In Order No. P.U. 39 (2016) (the “2017 Capital Order”), the Board required specific information
13 to be filed with the Application. The Application complies with the requirements of the 2017
14 Capital Order.

15
16 In Order No. P.U. 35 (2003) (the “2004 Capital Order”), the Board required specific information,
17 and in particular a 5-year capital plan, to be provided with the Application. The Application
18 complies with the requirements of the 2004 Capital Order.

19
20 In Order No. P.U. 19 (2003) (the “2003 Rate Order”), the Board required that evidence relating
21 to deferred charges and a reconciliation of average rate base to invested capital be filed with the
22 Application. The Application complies with the requirements of the 2003 Rate Order.

1 In Order No. P.U. 32 (2007) (the “2008 Rate Order”), the Board approved Newfoundland
2 Power’s calculation of rate base in accordance with the Asset Rate Base Method. The
3 Application complies with the requirements of the 2008 Rate Order.

4

5 **4.2 The Capital Budget Application Guidelines**

6 In the Capital Budget Application Guidelines dated October 2007 (the “CBA Guidelines”), the
7 Board outlined certain directions on how to define and categorize capital expenditures. Although
8 compliance with the CBA Guidelines necessarily requires the exercise of a degree of judgment,
9 the Application, in Newfoundland Power’s view, complies with the CBA Guidelines while
10 remaining reasonably consistent and comparable with past filings.

11

12 Section 2 of the *2018 Capital Plan* provides a breakdown of the 2018 Capital Budget by
13 definition, classification, costing method and materiality segmentation as required in the CBA
14 Guidelines.

15

16 **5.0 PROCESS**

17 **5.1 Proceedings of Record**

18 On August 7, 2017, the Board issued 7 Requests for Information (“RFIs”) to Newfoundland
19 Power. On August 9, 2017, the Consumer Advocate issued 15 RFIs. The Consumer Advocate
20 submitted an additional 3 RFIs on August 18, 2017.

21

22 Newfoundland Power responded to all 25 RFIs on August 25, 2017.

1 No intervenor evidence was filed in the proceeding, and no intervenor requested a technical
2 conference or formal hearing of the Application.

3

4 **5.2 Intervenors' Submissions**

5 On September 8, 2017, Newfoundland and Labrador Hydro ("Hydro") advised in its written
6 submission that they had no comments on the Application. On September 18, 2017, the
7 Consumer Advocate filed a written submission with the Board (the "Consumer Advocate's
8 Submission").

9

10 The only proposed 2018 capital project specifically addressed in the Consumer Advocate's
11 Submission is the *Purchase Mobile Generation* project. In addition, the Consumer Advocate's
12 Submission makes general observations regarding (i) the Board's Capital Budget Application
13 procedures, (ii) "emerging issues" pertaining to Newfoundland Power's 23 hydroelectric plants
14 and (iii) the inclusion of expenditures on real property in every capital budget application.

15

16 Following is Newfoundland Power's response to the Consumer Advocate's Submission.

17

18 **6.0 RESPONSE TO CONSUMER ADVOCATE'S SUBMISSION**

19 **6.1 Purchase Mobile Generation**

20 Newfoundland Power's mobile gas turbine ("MGT") is 43 years old and is rated at 6,750 kW. The
21 MGT has traditionally been used for (i) support for customer outages, (ii) construction projects, and
22 (iii) system support. A condition assessment carried out in 2015 recommended that the MGT soon
23 be retired from mobile operation due to the deteriorating condition of the trailer chassis.

24 Reference: *Application*, Tab 1.2: Purchase Mobile Generation, page 1 and Appendix A.

1 The availability of mobile generation can ensure the reliability of electrical service to customers and
2 provide flexibility to operating and maintenance staff when responding to extended customer
3 outages in both planned and unplanned situations. The MGT has been used extensively by
4 Newfoundland Power to support planned work and to respond to unplanned customer outages.

5
6 Planned use of the MGT typically involves selected construction projects where, due to the nature
7 of the work and the number of affected customers, the use of mobile generation to minimize the
8 interruption of service to customers is a practical choice.

9
10 The MGT provides support for unplanned customer outages due to equipment failure or widespread
11 damage caused by severe weather. Due to the length of time required to make the MGT available
12 for service, its use for unplanned outages is typically limited to circumstances where power is
13 expected to remain out for an extended period.

14 Reference: *Application*, Tab 1.2, Purchase Mobile Generation, pages 1 and 4, Appendix A.

15
16 The MGT can also be used to provide system support during times of high demand or low
17 generation reserve.

18 Reference: *Application*, Tab 1.2: Purchase Mobile Generation, pages 2-3.

19
20 The Consumer Advocate’s Submission states that the MGT “has been used mostly to offset
21 construction outages. These are planned outages that can readily be controlled by the Applicant.”

22 Reference: Consumer Advocate’s Submission, page 4.

1 The scheduling of construction and maintenance outages is generally within Newfoundland
2 Power's control. However, the associated outages can only be avoided if an alternate supply of
3 power is made available or hot-line work methods can be employed. The choice between mobile
4 generation and hot-line work methods is made on an individual project basis.

5 Reference: *Application*, Tab 1.2: Purchase Mobile Generation, page 2; Response to Request for
6 Information PUB-NP-004.

7
8 Since July 2007, the MGT operated to avoid customer outages in 43 cases, totalling 132 days. This
9 included a period during the summer of 2015 when the MGT operated in Twillingate during a series
10 of transmission line maintenance outages. If the MGT had not been available in those instances,
11 customers would have experienced lengthy outages. It is important, particularly in rural
12 Newfoundland, that mobile generation be available to avoid lengthy summer outages that could
13 impact the tourism and fishing industries.

14 Reference: Response to Request for Information CA-NP-005, Table 1; Response to Request for
15 Information CA-NP-006.
16

17 That the MGT has been used less to respond to unplanned outage situations over the last 5 year is a
18 function of the timing of storms that have caused damage to the system.

19 Reference: *Application*, Tab 1.2: Purchase Mobile Generation, page 3.

20
21 The Consumer Advocate's Submission states that "there will always be unplanned electricity
22 outages. However, the evidence is that Newfoundland Power's System Average Interruption
23 Duration Index (SADI) and System Average Interruption Frequency Index (SAFI) are better than
24 the Canadian average."

25 Reference: Consumer Advocate's Submission, page 5.

1 Newfoundland Power acknowledges that sound outage management practices and prudent capital
2 expenditure on the electricity system will not avoid all electricity outages. However, the evidence
3 before the Board shows that the Company's better-than-average reliability statistics would have
4 been less so without the contribution of the MGT. In 2015, for example, the MGT was deployed in
5 4 locations to avoid extensive customer outages. This deployment avoided approximately 28
6 million customer outage minutes. That same year, the MGT was used in Port aux Basques to avoid
7 approximately 6 million customer outage minutes during Hydro's annual transmission line
8 maintenance in the area.

9 Reference: *Application*, Tab 1.2: Purchase Mobile Generation, page 2.

10

11 The Consumer Advocate's Submission states there is no evidence that the service life of the
12 existing MGT has ended. The Consumer Advocate submits that, because the MGT is still
13 operational, the proposal to replace it is premature.

14 Reference: Consumer Advocate's Submission, page 5.

15

16 The evidence indicates that the generating equipment on the MGT does have some service life
17 remaining. However, the *mobility* of the unit is an immediate concern. The evidence in the
18 Application is that there are serious issues with the MGT's trailer chassis and equipment
19 enclosures. Deterioration of these components compromises the mobility of the unit. Mobility is
20 a fundamental requirement for the MGT. For this reason, the proposal to purchase new mobile
21 generation is timely.

22 Reference: *Application*, Schedule B, Purchase Mobile Generation, page 7 of 90.

1 Due to the poor condition of the trailers that support and house the gas turbine components, the
2 roadworthiness of the MGT cannot be maintained much longer. As a result, the MGT will be
3 retired from *mobile* service over the next 3 years. This proposed schedule coincides with the
4 anticipated delivery of the new mobile generator. Scheduling the purchase of new mobile
5 generation to coincide with the retirement of the MGT from mobile service will ensure the
6 Company's continued ability to respond effectively to extended customer outages in both planned
7 and unplanned situations.

8 Reference: Response to Request for Information CA-NP-008.

9
10 In addition to its compromised roadworthiness, the MGT's gas generator and power turbine are no
11 longer manufactured. The dwindling number of similar units in service has resulted in fewer
12 overhaul facilities with the necessary expertise to refurbish this equipment. It is anticipated that the
13 remaining service life of the major generating components of the MGT is between 5 and 10 years.
14 Newfoundland Power does not propose to retire the MGT from service *as a generator* before it has
15 reached the end of its service life. When the MGT is retired from mobile service, it will be moved
16 to a permanent location, where it will remain until it is no longer cost-effective to maintain.

17 Reference: *Application*, Tab 1.2: Purchase Mobile Generation, page 4.

18
19 The Consumer Advocate's Submission states that the availability of "ratepayer sources of
20 generation" negates the case for replacing the MGT. These sources of generation, according to
21 the Consumer Advocate's Submission, include emergency generation maintained by larger
22 municipalities, hospitals, and fire stations, as well as generators that have been purchased by
23 individual ratepayers. The Consumer Advocate's Submission acknowledges that evidence of the

1 availability of such generation is anecdotal, and that a study may be “instructive.”

2 Reference: Consumer Advocate’s Submission, page 5.

3

4 Newfoundland Power submits that the number of customers who have their own generators does
5 not affect the Company’s obligation to deliver power to *all* consumers in the province at the
6 lowest possible cost consistent with reliable service, as set out in the *Electrical Power Control*
7 *Act, 1994*.

8

9 The mobile generating units owned by Newfoundland Power are typically operated to supply
10 emergency power to *areas* that experience a loss of supply for an extended period of time, as
11 opposed to specific premises such as municipal buildings, hospitals and fire stations. While the
12 Company does pay due regard to minimizing the impact of outages on critical customers such as
13 these, it must also endeavour to provide emergency power to the broader community.

14 Reference: Response to Request for Information CA-NP-009.

15

16 Newfoundland Power acknowledges the availability of a limited amount of emergency
17 generating capacity on the island that can be used for system support purposes. However, such
18 generating capacity is already utilized, when available, in accordance with the terms of the
19 Company’s Curtailable Service Option. Because such generation is not mobile, however, it is
20 not capable of addressing outages resulting from equipment failure or storm damage in rural
21 areas or on radial systems. It is also not capable of providing generation to avoid construction-
22 related outages in various locations throughout the island.

1 The Consumer Advocate’s Submission states that Newfoundland Power has an operational MGT
2 and such a purchase would be extravagant, and should be denied outright or deferred to some
3 future date.

4 Reference: Consumer Advocate’s Submission, page 5.

5
6 The MGT provides Newfoundland Power the capability to respond to, or avoid, emergency
7 conditions that may be created for its customers by loss of electrical service. This most often
8 requires deployment of the MGT in rural portions of Newfoundland Power’s service territory, as
9 the electricity system in the urban centres includes some degree of redundancy. Newfoundland
10 Power submits that failure to replace the MGT at the end of its *mobile* service life would place
11 the Company in the position of being unable to provide reasonably reliable service to its
12 customers due to a lack of adequate emergency generating facilities.

13 Reference: Response to Request for Information CA-NP-012.

14

15 **6.2 Capital Budget Application Procedure**

16 The CBA Guidelines were finalized in October 2007 following a multi-year capital budget review
17 process that commenced in 2004. The review process, the objective of which was to streamline the
18 capital budget approval process, was coordinated by the Board’s external legal counsel with the
19 assistance of regulatory expert Dr. John Wilson. Following a period of consultation, the Board
20 issued provisional guidelines in June 2005 that incorporated the results of consultations with the
21 utilities and other participants in the process.

22 Reference: *Letter from the Board, Capital Budget Review Process, June 5, 2005.*

1 The CBA Guidelines contain the following policy statement:

2 In fulfilling its mandate with respect to the supervision of the capital expenditures
3 of a utility the Board balances the interests of consumers and the utility in the
4 context of the applicable legislative provisions. In balancing these interests the
5 Board is committed to the efficient and effective review and approval of
6 expenditures in keeping with the provision of least cost reliable service.
7

8 The CBA Guidelines contain the following statement of purpose:

9 The purpose of this policy is to provide clarity and consistency in the submission
10 of capital expenditures by a utility, while ensuring transparent and fair oversight
11 by the Board. The policy sets out the format, process, schedule and obligations of
12 the utility and participating parties.
13

14 Reference: *Capital Budget Application Guidelines, October 2007*, page 2 of 11.

15

16 The Consumer Advocate's Submission draws comparisons between the capital budget process and
17 the Board's typical general rate application process. The Consumer Advocate's Submission takes
18 issue with the Board's practice of using a "paper hearing" to review annual capital budget
19 applications, describing the process as "perfunctory."

20 Reference: Consumer Advocate's Submission, page 2.

21

22 In Newfoundland Power's submission, the CBA Guidelines fulfill their stated purpose. Since their
23 adoption, the CBA Guidelines have facilitated an efficient and orderly capital budget approval
24 process. The CBA Guidelines establish clear and consistent evidentiary requirements, and allow
25 for thorough, transparent examination of capital expenditure proposals. For larger, more complex
26 projects, the CBA Guidelines provide for public hearings in appropriate cases.

1 The Consumer Advocate's Submission implies that the Board's capital budget process is not
2 consistent with the legislation and regulations. Newfoundland Power interprets the legislation and
3 regulations differently.

4 Reference: Consumer Advocate's Submission, pages 2-3.

5

6 The *Board of Commissioner of Public Utilities Regulations, 1996*, provide as follows:

- 7 **3.** (1) Unless otherwise directed by the board, these regulations apply to
8 proceedings
9 (a) arising from an application to the board for an order, approval, or
10 recommendation; and
11 (b) arising upon the calling of a public hearing by the board on its own
12 motion.
13
- 14 **(2) In any application or other proceeding, the board may dispense with,
15 vary or supplement any provisions of these regulations on those terms
16 as the board considers necessary.**
- 17
- 18 **22.** When the board does not proceed by way of a public hearing, the board
19 may,
20 **(a) dispose of the matter on the basis of the written documentation
21 before it;**
22 (b) require further information to be furnished; or
23 (c) issue procedural orders and invite submissions from any person who
24 may have an interest in the proceeding. **(emphasis added)**
25

26 Reference: *Board of Commissioners of Public Utilities Regulations, 1996*, NL Reg. 39/96.

27

28 Newfoundland Power submits that the Board's use of written hearings is consistent with the *Public*
29 *Utilities Act* and the regulations promulgated thereunder.

1 Newfoundland Power further observes that the use of “paper hearings” or “written hearings” is
2 common in public utility regulatory practice in Canada.

3 Reference: Nova Scotia Utility and Review Board, *Rules of Practice and Procedure Respecting*
4 *Regulatory Proceedings*; New Brunswick Energy & Utilities Board, *Rules of*
5 *Procedure*; Ontario Energy Board, *Rules of Practice and Procedure*; Alberta
6 Utilities Commission, *Rule 001, Rules of Practice*; British Columbia Utilities
7 Commission, *Rules of Practice and Procedure*.
8

9 Newfoundland Power submits that the Board’s practice and procedure for capital budget
10 approval provides for efficient and effective oversight by the Board of utility capital
11 expenditures, and is consistent with the Board’s regulatory mandate to balance the interests of
12 consumers and the utility in accordance with the governing legislation.
13

14 **6.3 Hydroelectric Plants**

15 The Consumer Advocate’s Submission states that there are “emerging issues pertaining to
16 Newfoundland Power's 23 hydro-electric plants.” The Consumer Advocate questions the future
17 role of Newfoundland Power’s small hydro plants once Muskrat Falls power is available on the
18 island. In the interim, the Consumer Advocate’s Submission states, “only absolute necessary
19 expenditures on these plants should be considered.”

20 Reference: Consumer Advocate’s Submission, pages 5-6.
21

22 Newfoundland Power is required to operate and maintain all of its hydroelectric generation assets
23 safely and in accordance with all applicable laws.

24 Reference: Response to Request for Information CA-NP-001.

1 Newfoundland Power's 23 hydro plants provide relatively inexpensive energy to the Island
2 Interconnected System. Maintaining these generating facilities reduces the need for additional,
3 more expensive generation. The Company's hydro plants produce a combined normal annual
4 production of 438.6 GWh. Replacing the energy produced by these facilities by increasing
5 production at Hydro's Holyrood Thermal Generating Station ("Holyrood") would require
6 approximately 710,000 barrels of fuel annually. At Hydro's current oil price of \$81.40 per barrel,
7 the avoided cost of fuel at Holyrood translates into approximately \$58 million in annual savings to
8 the benefit of Newfoundland Power's customers.

9 Reference: *Application*, Schedule B, Facility Rehabilitation, page 2 of 90.

10

11 Newfoundland Power submits that all *Generation - Hydro* capital expenditures proposed in the
12 Application are justified based on the requirement to maintain access to hydroelectric generation
13 at a cost that is lower than the cost of replacement energy.

14

15 **6.4 Real Property Expenditures**

16 The Consumer Advocate's Submission states as follows:

17 The Applicant's proposal for expenditures on real property appear in every Capital
18 Budget as the Applicant's plans to upgrade, replace equipment and approve
19 facilities seem to have no end. It is reasonable to conclude that if the Applicant
20 were not into a rate base system these sorts of expenditures would not be
21 forthcoming. As it stands, such expenditures expanding the rate base are really
22 unsustainable. The Applicant is acting as if there is no emerging rate crisis based
23 on affordability. The Board is requested to study each and every expenditure.

24

25 Reference: Consumer Advocate's Submission, page 6.

1 The 2018 Capital Budget Application contains a total of \$1.3 million in proposed capital
2 expenditures in the General Property category. The proposals comprise expenditures to (i)
3 refurbish security fencing at 2 storage yards in the St. Johns' area (\$315,000), (ii) resurface a 40-
4 year old parking lot at the Company's regional offices in Carbonear (\$298,000), and (iii)
5 expenditures in various locations totalling \$671,000 to ensure the continued safe operation of
6 Company facilities and workplaces.

7
8 Justifications for Company building renovations are based on inspections completed by
9 professional engineers or independent experts. The evidence before the Board is that all of the
10 proposed General Property capital expenditures are necessary to maintain buildings and other
11 facilities, and to operate them in a safe and efficient manner.

12 Reference: *Application*, Schedule B, pages 56 to 61 of 90.

13

14 **7.0 CONCLUSIONS**

15 **7.1 Capital Projects**

16 ***General***

17 The projects presented in Newfoundland Power's 2018 Capital Budget Application are necessary
18 to (i) respond to customer growth and changes in customer requirements, (ii) replace
19 deteriorated, defective or obsolete equipment, (iii) respond to legislative and regulatory
20 requirements, (iv) address safety and environmental issues, (v) and maintain or improve
21 customer service levels and operational efficiency gains.

1 With the exception of the Consumer Advocate’s submissions with respect to the *Purchase*
2 *Mobile Generation* project, which are addressed above, no specific challenge has been made to
3 the numerous engineering judgments and assessments that form the basis of the capital
4 expenditures proposed in Newfoundland Power’s 2018 Capital Budget.

5
6 The general implication of the Consumer Advocate’s Submission that Newfoundland Power’s
7 annual capital budget proposals are not justified or based on identified need is without merit.
8 Newfoundland Power’s approach to maintaining the electrical system was reviewed by the Board
9 and its consultant, the Liberty Consulting Group (“Liberty”) in the Board’s *Investigation and*
10 *Hearing into Supply Issues and Power Outages on the Island Interconnected System*. In its final
11 report, Liberty concluded:

12
13 Newfoundland Power uses an effective combination of periodic O&M inspection
14 and maintenance programs and capital transmission, distribution, and annual
15 capital substation capital rebuild and modernization projects to address condition,
16 reliability, and operating issues with its transmission, distribution, and substation
17 assets.
18

19 Reference: Response to Request for Information CA-NP-018.

20

21 Newfoundland Power’s proposed capital expenditures for 2018 are necessary to provide service
22 to customers that is safe and adequate and just and reasonable, and they are consistent with the
23 provision of least cost electrical service.

1 ***Newfoundland Power’s Capital Management Practices***

2 To provide a broad context for the Board’s consideration of the Application, Newfoundland
3 Power’s *2018 Capital Plan* provides overviews of (i) the Company’s capital management
4 practice and how it is reflected in its annual capital budgets, (ii) the 2018 Capital Budget and (iii)
5 the 5-year capital outlook through 2022.

6
7 The *2018 Capital Plan* contains an overview of the Company’s capital management practices.

8 Changes in customer requirements are a primary influence on the Company’s lower capital
9 planning forecast. Part of the reduction over the 2018 to 2022 period reflects the forecast
10 conclusion of the Company’s accelerated deployment of AMR meters in 2017. Otherwise,
11 annual expenditure through the forecast period is broadly consistent on an inflation-adjusted
12 basis with that in the period 2013 through 2017.

13 Reference: *2018 Capital Plan*.

14

15 ***Sound Engineering Judgment***

16 The provision of service and facilities that are “reasonably safe and adequate and just and
17 reasonable” as mandated by Section 37(1) of the *Public Utilities Act* requires the exercise of
18 judgment. In particular, the timing, necessity and appropriateness of the investment to meet the
19 obligation to serve on a least cost basis involves sound engineering judgment.

1 To assist the Board in determining whether the engineering judgments reflected in the 2018
2 Capital Budget are sound, it is submitted that there was no evidence before the Board in this
3 proceeding that:

- 4 (i) contradicts the engineering judgments reflected in the capital projects presented in
5 the 2018 Capital Budget;
- 6 (ii) demonstrates reasonable alternatives that were not considered by Newfoundland
7 Power; or
- 8 (iii) demonstrates that not proceeding with a particular capital project is a preferable
9 alternative.

10

11 ***Submission***

12 Newfoundland Power submits that the 2018 Capital Budget contained in the Application
13 represents the capital expenditures required to meet its statutory obligations, including the
14 delivery of electrical power at the lowest possible cost consistent with reliable service. Pursuant
15 to Section 41 of the *Public Utilities Act*, the 2018 Capital Budget should be approved in its
16 entirety by the Board.

17

18 **7.2 Rate Base**

19 ***General***

20 Newfoundland Power has requested that the Board fix and determine the 2016 average rate base
21 for the purpose of regulatory continuity and certainty, in the same manner as the Board has
22 exercised this regulatory supervisory power since 1999.

23 Reference: Order No. P.U. 24 (2000-2001).

1 Newfoundland Power’s actual average rate base for 2016 is shown in Schedule D to the
2 Application.

3
4 The Board’s financial consultants, Grant Thornton LLP, have reviewed the calculation of
5 Newfoundland Power’s 2016 actual average rate base as shown in Schedule D to the
6 Application, and confirmed that it is accurate and in accordance with established practice and
7 Board Orders.

8 Reference: Grant Thornton LLP, Letter to the Board re *Newfoundland Power Inc. 2018*
9 *Capital Budget Application*, August 31, 2017.

10

11 **Submission**

12 Based upon the evidence before the Board and pursuant to Section 78 of the *Public Utilities Act*,
13 the Board should fix and determine Newfoundland Power’s average rate base for 2016 at
14 \$1,061,044,000.

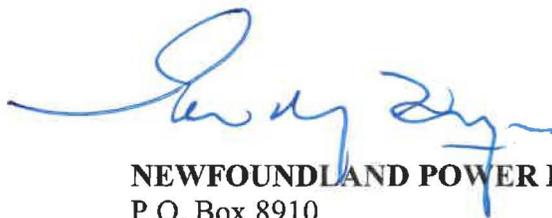
15

16 **RESPECTFULLY SUBMITTED** at St. John’s, Newfoundland and Labrador, this 22nd day of
17 September, 2017.

18

19

20



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