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October 14, 2022

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

Dear Ms. Blundon:

Re: Newfoundland Power's 2023 Capital Budget Application – Consumer Advocate's Request for Oral Hearing

1.0 INTRODUCTION

Newfoundland Power Inc. ("Newfoundland Power" or the "Company") filed its *2023 Capital Budget Application* (the "Application") on June 29, 2022. On October 12, 2022, the Consumer Advocate requested that the Board hold an oral hearing on the Application (the "Consumer Advocate's Request"). The review schedule for the Application requires Newfoundland Power's response to the Consumer Advocate's Request be filed by October 14, 2022.

The Consumer Advocate's Request provides general comments respecting Newfoundland and Labrador Hydro ("Hydro") and recent developments in the provincial electricity sector. The Consumer Advocate's Request also identifies specific issues to be interrogated during an oral hearing. Newfoundland Power's response addresses both the general comments and specific issues raised in the Consumer Advocate's Request.

2.0 NEWFOUNDLAND POWER'S RESPONSE

General Comments

The Consumer Advocate's Request includes general comments that attempt to compare Newfoundland Power's capital expenditures to those of Hydro. The Consumer Advocate alleges that Hydro has indicated that it is able to manage its operations with an approximately \$90 million 2023 capital budget. The Consumer Advocate further comments that Hydro's rate base is twice that of Newfoundland Power's, yet the Company's capital budget exceeds that of Hydro by approximately \$33 million.¹

¹ See the Consumer Advocate's Request, page 1.

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The comparison of Newfoundland Power's capital spending to that of Hydro is without merit. First, differences in the utilities' annual capital spending reflect differences in the utilities' electrical systems, service territories and operational requirements. Second, while Newfoundland Power's Application provides all expenditures that are anticipated to be required in 2023, Hydro's does not. Hydro's *2023 Capital Budget Application* does not include planned supplemental applications totaling over \$15 million.² Third, while Hydro's capital plan shows annual expenditures reaching as high as \$158 million over the next five years, it does not reflect the considerable investments that are expected to result from the recommendations of the *Reliability and Resource Adequacy Study*.

The Consumer Advocate highlights recent developments in the province's electricity sector. These developments include concerns regarding the cost and reliability of supply of the Muskrat Falls Project, and a report released by the Auditor General regarding the spending of Nalcor Energy. The Consumer Advocate states that, given these developments, "*there is an extremely high sensitivity on the part of electrical consumers in the province to ensure that significant expenditures by a utility be subject to transparent, effective oversight.*"³

Newfoundland Power observes that the issues raised by the Consumer Advocate have transpired in areas of the province's electricity sector that are not subject to regulatory oversight. The Muskrat Falls Project and Nalcor Energy are exempt from the *Public Utilities Act* and are not subject to oversight by the Board. By contrast, Newfoundland Power's operations and capital expenditures are thoroughly reviewed by the Board through annual capital budget applications and periodic general rate applications. These proceedings ensure the Company's operations are the subject of transparent oversight and ultimately result in the delivery of least-cost, reliable service to customers. While issues continue to plague unregulated areas of the province's electricity sector, there has not been a customer rate increase resulting from a Newfoundland Power general rate application since 2016 and the Company continues to provide reliable electricity service to its customers.⁴

Specific Issues

The Consumer Advocate's Request outlines four specific issues to be interrogated during an oral hearing. Each of these issues has been thoroughly addressed throughout this proceeding, including via an introductory presentation, technical conference and two rounds of Requests for Information ("RFIs"). The four issues are addressed in detail below.

² See Hydro's *2023 Capital Budget Application*, response to Request for Information NP-NLH-001, Table 1.

³ See the Consumer Advocate's Request, page 2.

⁴ On July 1, 2016, customer rates increased by 1.2% as a result of Newfoundland Power's *2016/2017 General Rate Application*. Customer rates did not change as a result of its *2019/2020 General Rate Application* and decreased by approximately 1% as a result of its *2022/2023 General Rate Application*.

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Issue 1

The Consumer Advocate takes issue with financial aspects of projects proposed in the Application. The Consumer Advocate believes that “*payback periods provide useful information to the Board and consumers*” and that “*projected benefits well into the future are far from being assured.*”⁵

Newfoundland Power disagrees that payback periods provide useful information. As part of the written record of this proceeding, the Company has highlighted academic references that demonstrate the weaknesses of using payback periods for complex investment decisions. The primary weakness is that a payback period fails to give weight to the difference in consequences after the breakeven point. Such an analysis would not provide a fulsome view of the customer benefits of long-life utility assets.⁶

Industry best practice is to assess the costs and benefits of capital investments on a net present value basis over the life of an asset, with sensitivity analyses to account for potential future uncertainties.⁷ This is the approach used in Newfoundland Power’s Application. It is also the approach required by the Board’s *Capital Budget Application Guidelines (Provisional)* (the “Provisional Guidelines”). The Provisional Guidelines do not require evaluations of payback periods.⁸

The Consumer Advocate uses the example of the *LED Street Lighting Replacement* project to illustrate that long payback periods indicate that benefits will not accrue for a long time. However, in this case, customers receive lower rates immediately following the replacement of an existing street light with an LED fixture. Additionally, various sensitivity analyses completed for the *LED Street Lighting Replacement* project confirmed that, even with significant changes in certain assumptions such as marginal costs, the project would continue to be least cost for customers.⁹

⁵ See the Consumer Advocate’s Request, page 3.

⁶ See the response to Request for Information CA-NP-174.

⁷ See the response to Request for Information CA-NP-174.

⁸ See the Provisional Guidelines, page 16 of 18.

⁹ See the response to Request for Information CA-NP-128.

Issue 2

The Consumer Advocate asserts that it “*remains unclear as to the purpose and need*” for three projects in Newfoundland Power’s Application.¹⁰ The three projects are:

(i) Transmission Line 55L Rebuild

The Consumer Advocate claims it is odd that annual inspections did not identify the sudden need to replace 50% of the poles on Transmission Line 55L and it is not clear why the entire line must be replaced rather than only the damaged poles.¹¹

Newfoundland Power disagrees with the Consumer Advocate’s characterization of the need to replace poles on Transmission Line 55L as “sudden.”

The Company has been monitoring the condition of Transmission Line 55L since its inclusion in the *Transmission Line Rebuild Strategy*, which has been in place for about 15 years. This has included monitoring work requests to correct certain deficiencies identified through annual inspections. While these work requests do not provide a comprehensive condition assessment of a line, they serve as a meaningful tool to observe changes in a line’s condition over time. The record of this proceeding clearly shows a trend of increasing work requests to address deficiencies on Transmission Line 55L over the last decade.¹² This trend triggered the need for a comprehensive assessment of the line’s overall condition, which ultimately determined that 253 of 490 poles on the line are deteriorated to the point where replacement is required.¹³

The record of this proceeding also provides a thorough explanation as to why the entire line must be replaced rather than only the damaged poles.

An assessment of alternatives was completed to identify the least-cost alternative to address the deteriorated condition of Transmission Line 55L. The alternatives included replacing the deteriorated line components and deferring replacement of the remaining components, rebuilding the line in its existing right of way, and rebuilding the line in a new right of way.¹⁴ The assessment included a net present value analysis, which determined that rebuilding Transmission Line 55L in a new right of way would be least cost for customers. Replacing only the deteriorated line components and deferring replacement of the remaining components, as referenced by the Consumer Advocate,

¹⁰ See the Consumer Advocate’s Request, page 3.

¹¹ See the Consumer Advocate’s Request, page 3.

¹² See the response to Request for Information CA-NP-139.

¹³ See the *2023 Capital Budget Application*, report 3.1 *2023 Transmission Line Rebuild*, Section 3.0 *Assessment of Transmission Line 55L*. See also, the response to Request for Information CA-NP-139.

¹⁴ See the *2023 Capital Budget Application*, report 3.1 *2023 Transmission Line Rebuild*, Section 4.0 *Assessment of Alternatives*.

would result in higher costs to customers of approximately \$4.5 million.¹⁵ This would be inconsistent with the delivery of least-cost, reliable service to customers.

(ii) *Distribution Feeder Automation*

The Consumer Advocate alleges that the installation of downline reclosers as part of the *Distribution Feeder Automation* project in order to improve the resiliency of the electrical system to severe weather *"is not consistent with Newfoundland Power's reliability criteria."* The Consumer Advocate further states that *"customers have not indicated that they want Newfoundland Power to spend capital to improve reliability during severe storm events."*¹⁶

There is no basis upon which to allege that the installation of downline reclosers is not consistent with Newfoundland Power's reliability criteria.

Downline reclosers provide operational efficiencies through their ability to be controlled remotely without the need to dispatch field crews to manually operate the devices. Efficiencies are also realized as sections of feeders are automatically re-energized, meaning these sections no longer need to be patrolled to identify the cause and location of outages. This reduces costs associated with responding to outages and allows field crews to focus on restoring service to customers in a timely manner. Newfoundland Power has provided multiple examples on the record of this proceeding of the efficiency and reliability benefits that have been realized through the installation of downline reclosers, particularly during significant events.¹⁷ These benefits are consistent with Newfoundland Power's objective of providing least-cost, reliable service to its customers, including during severe weather.

Providing least-cost, reliable service to customers during severe weather is consistent with customers' service expectations.

The record of this proceeding shows that significant customer outages due to severe weather have become more frequent in the Company's service territory, causing customer outages in nine of the last 10 years, compared to just three years in the prior decade. These events can have a significant impact on the service reliability experienced by customers and require a complex and costly response to restore service in a timely manner. A timely response to customer outages under such conditions, particularly during the winter, is essential as customers rely on electricity for essential functions such as space heating.¹⁸ A timely response to customer outages during severe weather is therefore essential to the health and safety of customers.¹⁹

¹⁵ See the *2023 Capital Budget Application*, report 3.1 *2023 Transmission Line Rebuild*, Section 4.5 *Net Present Value Analysis of Alternatives*.

¹⁶ See the Consumer Advocate's Request, page 4.

¹⁷ See the responses to Requests for Information CA-NP-151 and NLH-NP-015.

¹⁸ Nearly three quarters of the Company's customers rely on electricity as their primary heating source.

¹⁹ See the response to Request for Information CA-NP-151.

(iii) *Distribution Reliability Initiative (Distribution Feeder SUM-01)*

With respect to the *Distribution Reliability Initiative*, which proposes the refurbishment of distribution feeder SUM-01, the Consumer Advocate claims that Newfoundland Power does not “1) quantify the expected reliability improvement, 2) quantify the risk of deferring the project, 3) quantify the expected improvement in maintenance costs, 4) identify customer complaints pertaining to the reliability of this section of the line, or 5) provide the expected pay-back period for the project.”²⁰

The *Distribution Reliability Initiative* targets capital upgrades to improve the reliability of service provided to customers supplied by Newfoundland Power’s worst performing feeders. The project is not justified on the basis of reduced maintenance costs, customer complaints or the expected payback period of the project.

For 2023, Newfoundland Power has proposed a targeted refurbishment of distribution feeder SUM-01 as part of the *Distribution Reliability Initiative*. Customers served by distribution feeder SUM-01 experience an average outage duration that is approximately four times the Company’s corporate average. The record of this proceeding includes a detailed assessment of the reliability performance of this feeder, as well as the results of an engineering review that included inspections of the feeder and an assessment of outage data using Newfoundland Power’s Outage Management System.²¹

Newfoundland Power has quantified the historical impact of the *Distribution Reliability Initiative* on the reliability of service provided to customers. The analysis showed the project has resulted in the reliability of its worst performing feeders coming in line with the Company’s corporate average. The average outage duration of these feeders prior to capital upgrades was 8.23 hours, while the average outage duration following capital upgrades was 2.64 hours.²² Distribution feeder SUM-01 has a reliability performance comparable to feeders previously refurbished under this project, with an outage duration of 7.98 hours. Consistent with its historical experience, Newfoundland Power aims to improve the performance of distribution feeder SUM-01 such that it is more comparable with its corporate average.

Newfoundland Power notes that the Consumer Advocate has taken issue with the fact that the Company has not quantified the risk associated with deferring these projects.²³ Newfoundland Power assessed the risk of deferring each of these projects using its risk matrix methodology, which it developed in 2022 to comply with the Board’s Provisional Guidelines. These assessments are largely qualitative in nature, but provide a reasonable view of the risks to which customers would be exposed if the projects did not proceed. The Company has previously stated that the quantification of risk requires the application of advanced analytics,

²⁰ See the Consumer Advocate’s Request, page 4.

²¹ See the *2023 Capital Budget Application*, report 1.1 *Distribution Reliability Initiative*.

²² *Ibid.* page 1, footnote 1. See also, the response to Request for Information CA-NP-104.

²³ See the Consumer Advocate’s Request, page 3.

such as asset health indices and failure curves. These are among the matters that will be explored by the Company as part of its asset management review.

Issue 3

The Consumer Advocate has alleged that "1) Newfoundland Power will continue to increase capital spending unless the Board signals a concern otherwise, and 2) Newfoundland Power's proposed asset management review will be used to justify further increases in spending rather than to meet the requirements set out in the Provisional Capital Budget Application Guidelines."²⁴

In Newfoundland Power's view, these statements are unfounded and are not reflective of the information on the record of this proceeding.

Newfoundland Power manages its capital investments to ensure the delivery of reliable, least-cost service to customers in *all* operating environments. The Company manages its capital expenditures through a comprehensive capital planning process that seeks to balance the cost and reliability of the service provided to its customers. This capital planning process ensures that only the capital expenditures necessary to provide customers with safe and reliable service at the lowest possible cost are proposed for Board approval. Capital expenditures are controlled through a variety of measures. Assessments of alternatives are completed to identify the least-cost alternative to meet a requirement, such as the assessment completed for Transmission Line 55L. Expenditures are targeted in the areas that provide the most benefits for customers, such as the targeted refurbishment of distribution feeder SUM-01. Expenditures are also deferred where possible, including five capital projects that were originally planned for 2023, but were subsequently deferred.²⁵

Newfoundland Power's forecast increase in capital expenditures over the next five years practically reflects the age of its electrical system and an expected increase in the need to replace and refurbish assets as they reach the end of their service lives. As part of this proceeding, the Company provided an assessment of the age of its assets and identified that its customers are exposed to increased risks of outages due to equipment failure as the electrical system ages.²⁶

Newfoundland Power's asset management review is not being completed to justify further increased spending, as alleged by the Consumer Advocate. The Company has stated that it is completing this review to ensure its practices remain adequate in light of its aging system and in line with good utility practice. The Company has stated that its review *will* consider what is required to meet the requirements of the Board's Provisional Guidelines.²⁷

²⁴ See the Consumer Advocate's Request, page 5.

²⁵ See the *2023 Capital Budget Application, 2023 Capital Budget Overview, Appendix B, Table B-2.*

²⁶ See the *2023 Capital Budget Application, 2023-2027 Capital Plan, Section 2.4 Asset Condition Outlook.*

²⁷ See the response to Request for Information CA-NP-136.

Issue 4

The Consumer Advocate has identified issues relating to capital spending on utility-owned charging infrastructure and states that “*the benefits of the proposed electrification program require further review*”, particularly given potential changes in marginal costs.²⁸

The *Electrification, Conservation and Demand Management Plan: 2021-2025* (the “ECDM Plan”) has been thoroughly interrogated as part of a separate proceeding. That proceeding has included the filing of responses to 393 Requests for Information, a technical conference, the filing of expert reports, three rounds of comments and responses from the parties, and the filing of updated information on market conditions.²⁹ Through this review process, comprehensive information has been provided on the customer benefits of electrification programs.

If the application for the ECDM Plan is approved, the Company would provide annual reports to the Board. The annual reports would provide an updated net present value analysis demonstrating the customer benefits of electrification programs. The updated analysis would account for changing market factors, such as changes in marginal costs. This would ensure that electrification programs continue to provide benefits for customers into the future.

3.0 CONCLUSION

The hearing of a capital budget application is normally a public, written process. The Board has previously articulated that it determines whether an oral hearing is required based on the information filed, the issues and projects to be addressed, and the justification for the request for an oral hearing. The Board has observed that oral hearings can be costly and these costs are passed on to customers.³⁰ The principle of regulatory efficiency requires a determination of whether an oral hearing would be in customers’ best interests.

In Newfoundland Power’s view, the Consumer Advocate’s request for an oral hearing is not justified and an oral hearing would not further the evidentiary record of this proceeding.

The Consumer Advocate has been afforded a full opportunity through the written review process to understand the nature and scope of Newfoundland Power’s proposals and to test the evidence provided by the Company. The process has been robust. It has included a presentation and Requests for Information, a detailed technical conference on nine issues identified by the Consumer Advocate, and a second round of Requests for Information that afforded intervenors the opportunity to request clarification and to ensure completeness of the

²⁸ See the Consumer Advocate’s Request, page 5.

²⁹ See Newfoundland Power’s correspondence to the Board regarding *Newfoundland Power 2021 Electrification, Conservation and Demand Management Application*; and *Newfoundland and Labrador Hydro – Approvals Required to Execute Programming Identified in the Electrification, Conservation and Demand Management Plan 2021-2025 Application – Comments of Newfoundland Power*, page 8, lines 16-18.

³⁰ See the Board’s correspondence to the Consumer Advocate regarding *Newfoundland Power Inc. – 2022 Capital Budget Application*, June 25, 2021.

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evidentiary record. A total of 240 Requests for Information have been answered as part of this proceeding.

The written record of this proceeding provides comprehensive information on the nature, scope and justification of the projects proposed in the Application. No justification has been presented in the Consumer Advocate's Request that shows bearing the cost of an oral hearing would be in customers' best interests, or that an oral hearing is required to ensure that proposed 2023 capital expenditures are consistent with the provision of safe and reliable service to customers at least cost.

Yours truly,

NEWFOUNDLAND POWER INC.



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