

WHENEVER. WHEREVER.
We'll be there.



December 4, 2023

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

Attention: Jo-Anne Galarneau
Executive Director and Board Secretary

Dear Ms. Galarneau:

Re: Newfoundland Power's 2024 Capital Budget Application – Submission of Newfoundland Power Inc.

Please find enclosed the original and 10 copies of the Submission of Newfoundland Power in relation to the Company's *2024 Capital Budget Application*.

If you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND POWER INC.

A handwritten signature in blue ink that reads "Dominic Foley". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Dominic Foley
Legal Counsel

Enclosures

c. Shirley A. Walsh
Newfoundland and Labrador Hydro

Dennis Browne, K.C.
Browne Fitzgerald Morgan & Avis

Newfoundland Power Inc.

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IN THE MATTER OF the *Public Utilities Act* (the "Act"); 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 its 2024 Capital Budget; and
- (b) fixing and determining its 2022 rate base.

**SUBMISSION OF
NEWFOUNDLAND POWER INC.**

December 4, 2023

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1 **1.0 INTRODUCTION**

2 Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) filed its *2024 Capital*
3 *Budget Application* (the “Application”) with the Board of Commissioners of Public Utilities of
4 Newfoundland and Labrador (the “Board”) on June 22, 2023.

5
6 The Application seeks an order of the Board, pursuant to section 41 of the *Public Utilities Act*,
7 approving single-year 2024 capital expenditures of \$84,583,000 comprising projects and
8 programs costing in excess of \$750,000, single-year 2024 capital expenditures of \$10,514,000
9 comprising projects and programs costing \$750,000 and under, and multi-year capital
10 expenditures for 2024, 2025 and 2026 totalling \$5,234,000, \$19,414,000 and \$297,000,
11 respectively. Including \$14,921,000 in 2024 capital expenditures associated with multi-year
12 projects previously approved by the Board, the 2024 Capital Budget totals \$115,252,000. The
13 Application also seeks an order of the Board, pursuant to section 78 of the *Public Utilities Act*,
14 fixing and determining the Company’s average rate base for 2022 in the amount of
15 \$1,230,434,000.

16
17 **2.0 OVERVIEW**

18 This submission will: (i) review the legislative framework under which the Application is
19 brought; (ii) address specific compliance requirements; (iii) summarize the procedural history of
20 the Application; (iv) address issues raised in the submissions of the intervenors; and
21 (v) conclude with Newfoundland Power’s submissions with respect to 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 which 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* provides that all sources and facilities for
7 the production, transmission and distribution of power should be managed and operated in a
8 manner that would result in: (i) the most efficient production, transmission and distribution of
9 power; (ii) customers having equitable access to an adequate supply of power; and (iii) power
10 being delivered to customers at the lowest possible cost, in an environmentally responsible
11 manner, consistent with reliable service.

12

13 Section 41(1) of the *Public Utilities Act* requires a public utility to submit, for the Board's
14 approval, an annual capital budget of proposed improvements or additions to its property.

15 Section 41(3) prohibits the Company from proceeding with an improvement or addition to its
16 property in excess of \$750,000 without the Board's prior approval. Section 54(1) obligates a
17 public utility, under specified conditions, to supply electrical energy to premises on being
18 required by the owner or occupier of the premises to do so.

19

20 The principal focus of this proceeding is whether Newfoundland Power's 2024 Capital Budget of
21 approximately \$115.3 million is reasonably required to meet its statutory obligations to serve its
22 customers.

1 Newfoundland Power submits that its 2024 Capital Budget of approximately \$115.3 million
2 represents the capital expenditures which are necessary to maintain its electrical system and to
3 continue meeting its statutory obligations.

4

5 **4.0 COMPLIANCE MATTERS**

6 In Order No. P.U. 19 (2003) (the "2003 Rate Order"), the Board required evidence relating to
7 deferred charges and a reconciliation of average rate base to invested capital be filed with
8 future capital budget applications. The Application complies with the requirements of the 2003
9 Rate Order.

10

11 In Order No. P.U. 35 (2003) (the "2004 Capital Order"), the Board required specific information,
12 and in particular a five-year capital plan, be provided with future capital budget applications to
13 give reasonable visibility of planned capital expenditures. The Application satisfies the
14 requirements of the 2004 Capital Order.

15

16 In Order No. P.U. 32 (2007) (the "2008 Rate Order"), the Board approved Newfoundland
17 Power's calculation of rate base in accordance with the Asset Rate Base Method. The
18 Application complies with the requirements of the 2008 Rate Order.

19

20 In Order No. P.U. 2 (2019) (the "2019 Rate Order"), the Board approved a change in the
21 capitalization of pension expense. The Application complies with the requirements of the 2019
22 Rate Order.

1 In Order No. P.U. 3 (2022) (the “2022 Rate Order”), the Board approved a change in the
2 calculation of General Expenses Capitalized to remove pension costs. The Application complies
3 with the requirements of the 2022 Rate Order.

4

5 In Order No. P.U. 38 (2022) (the “2023 Capital Order”), the Board required a status report on
6 2023 capital budget expenditures be filed with the Application. The Application complies with
7 the requirements of the 2023 Capital Order.

8

9 The Board issued the *Capital Budget Application Guidelines (Provisional)* (the “Provisional
10 Guidelines”) on December 20, 2021. The Provisional Guidelines provide direction on the
11 classification, categorization, materiality and evidentiary requirements for proposed capital
12 expenditures. The Board noted that strict adherence to all aspects of the Provisional Guidelines
13 may not be possible, and that stakeholders should make best efforts to respect the spirit and
14 intent of the Provisional Guidelines.

15 Reference: Correspondence from the Board Re: Provisional Capital Budget Application
16 Guidelines, dated December 20, 2021, page 2.

17 The Application complies with the Board’s direction on the Provisional Guidelines and all
18 applicable directives of the Board.

19

20 **5.0 PROCESS**

21 On July 11, 2023, the Board issued a schedule of dates for hearing the Application. The
22 schedule provided for, among other items, an introductory presentation, the submission of
23 requests for information (“RFIs”), the filing of intervenor evidence, and written submissions.

1 Newfoundland Power gave an introductory presentation on the Application on
2 July 26, 2023. Board staff, Newfoundland and Labrador Hydro (“Hydro”) and the Consumer
3 Advocate attended the presentation.
4

5 On August 7, 2023, Newfoundland Power received 51 RFIs issued by the Board. On August 9,
6 2023, 41 RFIs were issued by Hydro, and 147 RFIs were issued by the Consumer Advocate. In
7 total, 239 RFIs were received. Newfoundland Power responded to these RFIs on August 31,
8 2023.
9

10 On September 8, 2023, the Consumer Advocate requested a technical conference on the
11 Application. The Board granted this request on September 11, 2023. The technical conference
12 was held on September 14, 2023, and addressed nine issues identified by the Consumer
13 Advocate. Board staff, Hydro and the Consumer Advocate were in attendance.
14

15 On September 8, 2023, the Consumer Advocate provided notice that it would be filing
16 intervenor evidence in the form of a report by Midgard Consulting Inc. (“Midgard”) titled *Utility*
17 *Management Responsibility Report* (the “Midgard Report”). A total of 13 RFIs were filed on the
18 Midgard Report, all of which were issued by Newfoundland Power. The Consumer Advocate
19 responded to all RFIs on October 11, 2023.
20

21 An additional 69 RFIs were received on the Application on September 26, 2023, including seven
22 RFIs issued by the Board, two RFIs issued by Hydro, and 60 RFIs issued by the Consumer
23 Advocate. Newfoundland Power responded to these RFIs on October 11, 2023. A total of 308
24 enumerated RFIs have been answered as part of this proceeding. Including individual
25 components of RFIs, a total of 727 questions were posed as part of this proceeding.

1 On October 23, 2023, the Consumer Advocate submitted a request to the Board for an oral
2 hearing on the Application. Newfoundland Power responded to the Consumer Advocate’s
3 request on October 27, 2023. On November 7, 2023, the Board issued its determination that
4 the Consumer Advocate had not demonstrated that an oral hearing was necessary for a full
5 understanding of the Application’s proposals.

6

7 On November 23, 2023, Hydro filed its written submission on the Application. In its submission,
8 Hydro did not object to any of the capital expenditures proposed in the Application.

9

10 On November 27, 2023 the Consumer Advocate filed its submission on the Application (the
11 “Consumer Advocate’s Submission”). Section 6 of this submission outlines Newfoundland
12 Power’s response to the Consumer Advocate’s Submission.

13

14 **6.0 RESPONSE TO CONSUMER ADVOCATE’S SUBMISSION**

15 **6.1 General Comments**

16 In its submission, the Consumer Advocate did not challenge the need or justification for any of
17 the projects and programs proposed in the Application.

18

19 This section addresses general comments made in the Consumer Advocate’s Submission
20 regarding Newfoundland Power’s level of capital spending and its relationship to rate base, the
21 Company’s level of capital spending compared to Atlantic Canadian utilities, the Provisional
22 Guidelines, and the relationship between capital expenditures and service reliability.

23

24 The Consumer Advocate stated that: (i) Newfoundland Power, as well as Hydro, should be
25 focusing on finding ways to reduce costs and limit capital expenditures to what is absolutely

1 necessary and fully justified; (ii) Newfoundland Power's rate base has been rising at a higher
2 rate than the general price level over the past 20 years; (iii) Newfoundland Power's capital
3 expenditure per customer is higher than the average of the Atlantic Canadian utilities; and
4 (iv) the Board should finalize the Provisional Guidelines.

5 Reference: Consumer Advocate's Submission, pages 2-6.

6
7 Newfoundland Power manages its capital expenditures through a comprehensive capital
8 planning process. The Company's capital planning process applies sound engineering and
9 objective data to determine which expenditures are required annually to provide customers with
10 access to safe and reliable service at the lowest possible cost. The capital planning process
11 serves to balance the cost and reliability of the service provided to customers.

12 Reference: Application, 2024 Capital Budget Overview, page 2.

13
14 Capital projects are reviewed and updated annually to reflect the latest condition assessments,
15 forecasts of electrical system load, changes in economic factors or industry requirements, and
16 changes in operational requirements. When it is determined that a capital expenditure may be
17 necessary, Newfoundland Power assesses all viable alternatives for executing the required work
18 where applicable. This includes both alternatives to the scope of a capital expenditure, such as
19 a like-for-like replacement or upgrade, and alternatives that could result in the deferral of
20 capital expenditures. The Application includes five capital projects that were previously
21 deferred or modified and are now proposed for 2024, and two capital projects that were
22 planned for future years but were advanced to 2024. There are seven capital projects that
23 were planned for 2024 but have been deferred to future years.

24 Reference: Application, 2024 Capital Budget Overview, Appendix B; PUB-NP-007;
25 PUB-NP-008.

1 The Company's cost management associated with its capital expenditures has been previously
2 recognized by the Board. In Order No. P.U. 36 (2021), the Board stated:

3 *The record shows that Newfoundland Power's capital planning process is*
4 *comprehensive and includes reasonable controls on capital spending.*

5
6 The Consumer Advocate states that Newfoundland Power's capital expenditure per
7 customer is higher than the average of the three utilities in the Maritime Provinces, and
8 provides data contained in the response to Request for Information CA-NP-059.

9 Reference: Consumer Advocate's Submission, page 4.

10
11 Newfoundland Power submits that, in the response to Request for Information PUB-NP-058, it
12 stated:

13 *Newfoundland Power observed that, in their annual financial statements, NB Power*
14 *changed accounting standards in 2016 from Canadian Generally Accepted Accounting*
15 *Principles ("Canadian GAAP") to International Financial Reporting Standards ("IFRS").*
16 *The change in accounting standards resulted in a material reduction in NB Power's*
17 *reported property, plant and equipment. Consequently, the property, plant and*
18 *equipment reported in NB Power's 2012 financial statements cannot be directly*
19 *compared to the values reported in its 2021 financial statements.*

20
21 Newfoundland Power provided updated information in the response to Request for Information
22 PUB-NP-058 which shows that Newfoundland Power's capital investment over the 2012 to 2021
23 period was consistent with the remaining two Atlantic Canadian utilities. The Company's
24 average capital investment per customer was 0.6% higher than the two remaining utilities in
25 the Atlantic Canadian Comparison in 2012 and 0.7% lower in 2021. Additionally, Newfoundland

1 Power observed that NB Power’s property, plant and equipment relating to T&D assets
2 increased by 34% from 2016 to 2021. By comparison, Newfoundland Power’s T&D assets
3 increased by approximately 22% over the same period.

4
5 Newfoundland Power submits that it continues to focus on managing capital expenditures while
6 maintaining service reliability for customers. As stated above, since 2012, Newfoundland Power
7 has had plant investment levels consistent with other Atlantic Canadian utilities while
8 maintaining service reliability over the same period that is consistent with the Canadian
9 average.

10 Reference: Application, 2024 Capital Budget Overview, Section 2.3 Balancing Cost and
11 Service; Order No. P.U. 36 (2021), page 45, lines 15-17; PUB-NP-002;
12 PUB-NP-058.

13 With respect to the Consumer Advocate’s submissions on the increase in Newfoundland Power’s
14 rate base when compared to inflation, the Company submits that using the GDP deflator is not
15 a reasonable comparator to measure increases in utility rate base.

16 Reference: PUB-NP-002.

17
18 Changes in the Company’s rate base primarily reflect both the change in annual capital
19 expenditures and depreciation expense in each year. These changes are not directly related to
20 changes in the GDP deflator. Annual capital expenditures are approved by the Board.

21 Depreciation expense is calculated using depreciation rates, which are also approved by the
22 Board as part of general rate applications. Changes in additions to, and deductions from, rate
23 base also affect the calculation of the forecast average rate base and are not directly related to
24 changes in the GDP deflator. These items include a combination of specific Board orders,
25 operation of approved regulatory mechanisms and longstanding regulatory practice. Annual

1 capital expenditures are not included in rate base until the capital project is completed and
2 commissioned.

3

4 Regarding the Consumer Advocate’s comments on the Provisional Guidelines, Newfoundland
5 Power notes that the Board has established a separate process for consideration of its overall
6 capital budget approval process. The Board’s *Capital Budget Applications Guidelines Review*
7 (the “Guidelines Review”) was established in 2019. The Guidelines Review resulted in the
8 development and implementation of the Provisional Guidelines in January 2022. The Guidelines
9 Review has not concluded, and the capital budget guidelines have yet to be finalized. The
10 Board’s last correspondence to the parties in relation to the Guidelines Review, dated
11 June 12, 2023, indicated that the Board continues to review comments from the parties on
12 potential guidelines changes.

13

14 Newfoundland Power submits that the evidence on the record of this proceeding demonstrates
15 that the capital expenditures proposed in the Application are fully justified and represent what is
16 necessary to comply with its statutory requirements.

17

18 **6.2 Specific Comments**

19 The Consumer Advocate’s Submission provides four specific recommendations for the Board to
20 consider in the Application. This section provides an overview of each of the four
21 recommendations, summarizes the Consumer Advocate’s comments on each recommendation,
22 and provides the Company’s response to those comments.

1 ***Recommendation #1***

2 *Project Overview*

3 The Application proposes 2024 capital expenditures of \$4,351,000 for the *Memorial Substation*
4 *Refurbishment and Modernization* project.

5
6 The proposed *Memorial Substation Refurbishment and Modernization* project involves the
7 replacement and modernization of deteriorated equipment at Memorial (“MUN”) Substation
8 located in the City of St. John’s. The equipment requiring replacement was identified through
9 inspections, engineering assessments and operating experience.

10 Reference: Application, Report 2.1 2024 Substation Refurbishment and Modernization,
11 Appendix C.

12 *Consumer Advocate’s Submission*

13 The Consumer Advocate takes the position that Memorial University is the only customer that
14 would benefit from the project, and that there is no ambiguity that Memorial University is the
15 only beneficiary. The Consumer Advocate provides comparisons of MUN Substation to
16 Roycefield Tap (“RFD”) Substation and transmission line 104L, and questions the role of 12L
17 and 14L transmission line equipment located at MUN Substation.

18 Reference: Consumer Advocate’s Submission, pages 10-11.

19
20 The Consumer Advocate recommends that the proposed capital expenditures for the *Memorial*
21 *Substation Refurbishment and Modernization* project should be approved for 2024 only on
22 condition that Newfoundland Power demand a contribution from Memorial University to cover
23 that expense.

24 Reference: Consumer Advocate’s Submission, page 12.

1 *Newfoundland Power's Response*

2 The Consumer Advocate did not dispute the need for the expenditures outlined in the proposed
3 2024 *Memorial Substation Refurbishment and Modernization* project. Rather, the Consumer
4 Advocate's position is that Memorial University should pay Newfoundland Power for the
5 necessary expenditures.

6
7 The evidence on the record of this proceeding demonstrates that Memorial University is not the
8 only customer that would benefit from the proposed project. MUN Substation forms part of the
9 St. John's looped 66 kV transmission network ("the St. John's 66 kV network") that provides
10 reliable supply to approximately 103,000 customers served in St. John's and surrounding areas.
11 Transmission lines 12L and 14L and their related substation equipment connect MUN Substation
12 to King's Bridge ("KBR") Substation in the east end of St. John's and Stamp's Lane ("SLA")
13 Substation in the centre of St. John's, respectively. This has been the configuration since MUN
14 Substation was constructed 57 years ago in 1966. Under normal operating conditions,
15 approximately half of the KBR Substation load is supplied over transmission lines 12L and 14L.
16 There are also reliability implications to Newfoundland Power's customers served by the
17 St. John's 66 kV network if there were an outage to 12L or 14L. With either of transmission
18 lines 12L or 14L out of service, a loss of power flow between KBR and SLA substations would
19 occur. In response to such an outage, power would automatically be redistributed throughout
20 the remaining 66 kV transmission lines on the St. John's 66 kV network. In the event that an
21 additional 66 kV transmission line on the St. John's 66 kV transmission network experiences an
22 outage, customer outages are more likely to occur.

23 Reference: PUB-NP-013; PUB-NP-053.

1 The Consumer Advocate’s comparison of MUN Substation to RFD Substation is not valid. In the
2 case of RFD Substation, the customer served by that substation is a mine that is located far
3 from Newfoundland Power’s electricity system. As a condition of their service, Newfoundland
4 Power required the customer to pay a Contribution in Aid of Construction (“CIAC”), since the
5 cost of serving the customer, including the cost of connecting the customer to Newfoundland
6 Power’s electrical system, was in excess of the estimated revenues that would have been
7 recovered from the customer through customer rates. Newfoundland Power requires
8 contributions from Memorial University when appropriate. This was demonstrated by the
9 \$4.0 million contribution from Memorial University towards the Long Pond (“LPD”) Substation
10 and in the CIAC for Memorial University in relation to its electric boiler project.

11 Reference: CA-NP-156; CA-NP-181; NLH-NP-027; Order No. P.U. 5 (2023).

12
13 Newfoundland Power disagrees with the Consumer Advocate’s statement that it should demand
14 a contribution from Memorial University to cover the expenditures associated with the proposed
15 project. General Service Rate #2.4 customers, such as Memorial University, pay rates that are
16 designed to recover the cost of serving the General Service Rate #2.4 customer rate class as a
17 whole. As a result, the rates paid by Memorial University recover a portion of all costs required
18 to serve the General Service Rate #2.4 rate class. This includes costs associated with all of the
19 substation, transformer, and distribution equipment allocated to the entire rate class.

20 Newfoundland Power’s General Service Rate #2.4 was assessed as part of Newfoundland
21 Power’s *2022/2023 General Rate Application* as well as prior general rate applications and was
22 determined to be fair. In the Company’s view, requiring Memorial University to pay
23 Newfoundland Power for all expenditures associated with MUN Substation, while also requiring
24 that it continue to pay a rate that recovers substation, transformer and distribution costs for the
25 General Service Rate #2.4 customer rate class as a whole would be discriminatory. Such a

1 requirement would, therefore, be inconsistent with longstanding regulatory principles exercised
2 by the Board. It would also be inconsistent with the Company's *Schedule of Rates, Rules &*
3 *Regulations* and would violate the *Electrical Power Control Act, 1994*. Newfoundland Power
4 observes that the load profile of Memorial University is expected to change substantially in the
5 coming years and a review of the rates charged to Memorial University would be appropriate
6 when those changes materialize. Newfoundland Power is also completing an updated rate
7 design review which would also inform the appropriateness of any potential changes in
8 Newfoundland Power's rate designs.

9 Reference: CA-NP-036; CA-NP-148.

10

11 The refurbishment and modernization of MUN Substation was planned to be completed in 2023,
12 but was deferred to align with Memorial University's schedule for upgrades to the substation.
13 Continued deferral of the refurbishment and modernization project will increase the risk that
14 some components will be ran to failure.

15 Reference: Application, Schedule B, page 69.

16

17 Newfoundland Power submits that the *Memorial Substation Refurbishment and Modernization*
18 project is required to provide reliable service to customers at the lowest possible cost and
19 should be approved.

20

21 ***Recommendations #2 and #3***

22 *Program Overview*

23 The Application proposes 2024 capital expenditures of \$12,140,000 for the *Extensions* program
24 and \$2,847,000 for the *New Services* program.

1 The proposed *Extensions* program involves the construction of primary and secondary
2 distribution lines to connect new customers to the electrical system. Extensions to distribution
3 lines are constructed upon requests from developers or contractors and individual customers.
4 The program also includes upgrades to the capacity of existing lines to accommodate
5 customers' increased electrical system loads.

6
7 The proposed *New Services* program involves the installation of service wires to connect new
8 customers to the distribution system.

9 Reference: Application, Schedule B, page 26 and 49.

10

11 *Consumer Advocate's Submission*

12 The Consumer Advocate expresses concern regarding the proportion of proposed capital
13 expenditures determined by the historical averages of past spending. The Consumer Advocate
14 states that there is a risk that reliance on historical averages to determine future spending
15 perpetuates spending at the average level in inflation-adjusted terms. The Consumer Advocate
16 also states that the historical average approach does not take into account any improved
17 technology that is embodied in replacement and new components that are provided by these
18 programs. The Consumer Advocate further states that Newfoundland Power provides no
19 evidence to justify increases in the costs per customer.

20 Reference: Consumer Advocate's Submission, pages 13-14.

21

22 The Consumer Advocate recommends that: (i) the 2024 budget amount for the *Extensions*
23 program be set at \$11,376,000; and (ii) the 2024 budget amount for the *New Services* program
24 be set at \$2,714,000.

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

1 *Newfoundland Power's Response*

2 Newfoundland Power submits that the Consumer Advocate's concern regarding the proportion
3 of capital expenditures determined by historical averages is not reflective of the information on
4 the record of this proceeding. Newfoundland Power's use of historical averages for estimating
5 budget expenditures has been in place for over two decades. Historical averages are used to
6 forecast programs related to customer load and connection growth, third party requests and
7 programs related to patterns of repair and replacement that are high volume. In all cases, the
8 factors driving the work are either: (i) the number of requests received from customers, joint
9 use partners, municipalities or government; (ii) the number of deficiencies that are identified
10 through inspection; or (iii) the number of in-service failures that occur. There is a high level of
11 uncertainty in these variables in advance of the budget year. The work is typically either of a
12 mandatory nature, in light of the statutory obligation to connect new customers, or includes
13 customer contributions to offset costs. The *Extensions* and *New Services* programs involve the
14 connection of new customers to the electrical system, for which Newfoundland Power has a
15 statutory obligation. These expenditures are mandatory irrespective of the methods used to
16 estimate them.

17

18 As part of this proceeding, Newfoundland Power reviewed the capital budget filings in other
19 Canadian jurisdictions where annual capital budgets are filed. All reviewed Canadian electrical
20 utilities that file an annual capital budget utilize historical averages. Newfoundland Power
21 submits that historical data averaged over a relevant period of time is a reasonable way of
22 forecasting expenditures in the budget year in light of the inherent uncertainties in the
23 underlying drivers of the work and does not perpetuate spending at the average level in
24 inflation-adjusted terms. Actual expenditures incurred for these programs are directly
25 attributable to the actual work that occurs in the year and are not driven by the budget

1 estimates. The Board has also acknowledged this statement. In its response to the Consumer
2 Advocate’s request for oral hearing, the Board states:

3 *While the proposed amounts for this work are based on historical averages, the amount*
4 *added to rate base to be recovered from customers will be based on the actual*
5 *expenditures which are incurred.*

6 Reference: CA-NP-200; Board correspondence dated November 7, 2023.

7
8 Further, Newfoundland Power disagrees with the Consumer Advocate’s statement that the
9 historical average approach does not take into account any improved technology that is
10 embodied in replacement and new components that are provided by these programs and is not
11 reflective of the information on the record of this proceeding. Newfoundland Power submitted
12 on the record of this proceeding that any trend in productivity (i.e. technology improvements)
13 will be captured in the increase or decrease of actual expenditures in the years following the
14 productivity change. The Board has also acknowledged this statement. In its response to the
15 Consumer Advocate’s request for an oral hearing, the Board states:

16 *The historical averages change each year based on actual expenditures, and as a result*
17 *they will reflect expenditure reductions due to technology advances.*

18 Reference: CA-NP-083; Board correspondence dated November 7, 2023.

19
20 The Consumer Advocate’s analysis is not reflective of Newfoundland Power’s budgeting
21 methodology for programs as it does not incorporate the comparison to the calculated five-year
22 average for programs budgeted on the basis of historical average. For example, historical
23 annual expenditures under the *Extensions* program for the most recent five-year period are
24 expressed in current-year dollars (“Adjusted Costs”). The estimate for the budget year is
25 calculated by taking the average of the Adjusted Costs, dividing by the number of new

1 customers to derive a Cost per Customer and inflating it using the GDP Deflator for Canada for
2 non-labour costs and the Company's internal labour inflation rate for labour costs. The *New*
3 *Services* program budget and cost per customer is estimated employing the same methodology.
4 Correctly employing this methodology for the *Extensions* program shows that the increase from
5 the five-year average Cost per Customer is 2.4%.

6 Reference: CA-NP-083.

7

8 Newfoundland Power submits that proposed 2024 expenditures associated with the *Extensions*
9 and *New Services* programs are required to provide equitable access to an adequate supply of
10 power as statutorily mandated and should be approved.

11

12 ***Recommendation #4***

13 *Program Overview*

14 The Application proposes 2024 capital expenditures of \$6,953,000 for the *Reconstruction*
15 program, \$4,974,000 for the *Rebuild Distribution Lines* program, \$4,066,000 for the
16 *Relocate/Replace Distribution Lines for Third Parties* program, \$3,681,000 for the *Replacement*
17 *Transformers* program, \$3,264,000 for the *New Transformers* program, \$2,629,000 for the *New*
18 *Street Lighting* program, \$863,000 for the *Replacement Street Lighting* program, \$4,797,000 for
19 the *Substation Replacements Due to In-Service Failures* program, and \$2,651,000 for the
20 *Transmission Line Maintenance* program.

21

22 The *Reconstruction* program is a corrective maintenance program that involves the replacement
23 of deteriorated or damaged distribution structures and electrical equipment. The program
24 addresses high-priority deficiencies identified during inspections or recognized during
25 operational problems, including customer outages and trouble calls. The *Reconstruction*

1 program permits the timely correction of high-priority deficiencies on the distribution system
2 that result in customer outages and unsafe operation of the electrical system.

3
4 The *Rebuild Distribution Lines* program involves the replacement of deteriorated distribution
5 structures and electrical equipment that have been identified through inspections or engineering
6 reviews. The *Rebuild Distribution Lines* program permits the planned correction of deficiencies
7 identified on the distribution system that would otherwise result in customer outages. High-
8 priority deficiencies that require correction within a month are addressed under the
9 *Reconstruction* program.

10
11 The *Relocate/Replace Distribution Lines for Third Parties* program is necessary to accommodate
12 third party requests to relocate or replace distribution lines.

13
14 The *Replacement Transformers* program is required to replace transformers that have failed in
15 service or have deteriorated, including transformers exhibiting severe rust, and are at imminent
16 risk of failure, and thereby prevents or mitigates environmental hazards.

17
18 The *New Transformers* program includes the cost of purchasing transformers to serve customer
19 growth. The number of new transformers required to be installed varies annually based on
20 customer growth and load density on sections of distribution feeders.

21
22 The *New Street Lighting* program involves the installation of new street lighting fixtures based
23 on customers' service requests.

1 The *Replacement Street Lighting* program involves the replacement of failed street light poles
2 and hardware, including overhead and underground wiring and pole-mounting brackets. The
3 Company's Street and Area Lighting service is essential to public safety. The failure of street
4 lighting components can result in outages to Street and Area Lighting customers. Street
5 lighting components can also pose a safety hazard upon failure, such as a failure of a pole
6 mounting bracket that causes a fixture to become detached from a pole, or the failure of a
7 dedicated street light pole.

8
9 The *Substation Replacements Due to In-Service Failures* program addresses equipment at
10 substations that fails in service or is at imminent risk of failure and ensures an adequate
11 inventory of spare parts to respond to in-service failures. The need to replace substation
12 equipment is determined based on in-service failures, testing, inspections, and operating
13 experience. When substation failures occur, they can result in significant customer outages.
14 This program allows Newfoundland Power to respond to equipment failures that occur
15 throughout normal operations.

16
17 The *Transmission Line Maintenance* program involves the replacement of transmission line
18 infrastructure that has failed or is at risk of failure. The *Transmission Line Maintenance*
19 program allows for both corrective and preventative maintenance on the Company's
20 transmission system, the backbone of the electrical system providing service to customers. The
21 program also includes a component to accommodate third-party requests to relocate or replace
22 sections of transmission lines. Third-party requests typically have contributions in aid of
23 construction, which offset capital costs.

24 Reference: Application, Schedule B, pages 29, 33, 35, 38, 42, 46, 52, 55, 57, 75, and 84.

1 *Consumer Advocate's Submission*

2 Similar to the Consumer Advocate's statements regarding Recommendations #2 and #3, the
3 Consumer Advocate states that Newfoundland Power provides no evidence to justify an
4 aggregate increase of 5.3% across the nine program budget amounts.

5 Reference: Consumer Advocate's Submission, page 15.

6
7 The Consumer Advocate recommends that the total 2024 budget amount for the
8 *Reconstruction, Rebuild Distribution Lines, Relocate/Replace Distribution Lines for Third Parties,*
9 *Replacement Transformers, New Transformers, New Street Lighting, Replacement Street*
10 *Lighting, Substation Replacements Due to In-Service Failures, Transmission Line Maintenance*
11 programs be set at \$32,179,000.

12 Reference: Consumer Advocate's Submission, page 15.

13

14 *Newfoundland Power's Response*

15 Newfoundland Power disagrees with the Consumer Advocate's statement that it provides no
16 evidence to justify its budget amounts and the Company further submits that such a position is
17 not reflective of the information on the record of this proceeding. In its submission, the
18 Consumer Advocate compares the 2024 budgeted amounts to the 2023 forecast expenditure
19 amounts to estimate an aggregate increase of 5.3%. This comparison is misleading as it does
20 not incorporate the comparison to the calculated five-year average for these programs, which is
21 how the budget estimates are actually derived. The budgets for the *Reconstruction* program,
22 *Rebuild Distribution Lines* program, *Relocate/Replace Distribution Lines for Third Parties*
23 program, *Replacement Transformers* program, *New Transformers* program, *New Street Lighting*
24 program, *Substation Replacements Due to In-Service Failures* program, and *Transmission Line*
25 *Maintenance* program are based on a five-year historical average. Historical annual

1 expenditures for these programs over the most recent five-year period are expressed in
2 current-year dollars ("Adjusted Costs"). The estimates for the budget year are calculated by
3 taking the average of the Adjusted Costs and inflating it using the GDP Deflator for Canada for
4 non-labour costs and the Company's internal labour inflation rate for labour costs. The budget
5 for the *Replacement Street Lighting* program is based on a three-year historical average.
6 Historical annual expenditures for the program over the most recent three-year period are
7 expressed in current-year dollars ("Adjusted Costs"). The estimate for the budget year is
8 calculated by taking the average of the Adjusted Costs and inflating it using the GDP Deflator
9 for Canada for non-labour costs and the Company's internal labour inflation rate for labour
10 costs.

11 Reference: Application, Schedule B, pages 29, 33, 38, 42, 46, 52, 55, 75, and 84.

12

13 The increase from the five-year average for the *Relocate/Replace Distribution Lines for Third*
14 *Parties* program is 2.4%.

15 Reference: CA-NP-078.

16

17 The increase from the five-year average for the *Replacement Transformers* program is 2.05%.

18 Reference: CA-NP-085.

19

20 The increase from the five-year average for the *New Transformers* program is 2.05%.

21 Reference: CA-NP-086.

22

23 The increase from the five-year average for the *Substation Replacements Due to In-Service*
24 *Failures* program is 2.3%.

25 Reference: CA-NP-095.

1 The *Reconstruction, Rebuild Distribution Lines, New Street Lighting, and Transmission Line*
2 *Maintenance* program budgets are estimated employing the same methodology.

3
4 Newfoundland Power has proposed a total project cost of \$863,000 for the *Replacement Street*
5 *Lighting* program, which implies a 2.25% increase from the three-year average program cost of
6 \$844,000.

7 Reference: CA-NP-088.

8
9 As detailed above, historical averages are used to forecast programs related to customer load
10 and connection growth, third party requests and programs related to patterns of repair and
11 replacement that are high volume. In all cases, the factors driving the work are either: (i) the
12 number of requests received from customers, joint use partners, municipalities or government;
13 (ii) the number of deficiencies that are identified through inspection; or (iii) the number of in-
14 service failures that occur. There is a high level of uncertainty in these variables in advance of
15 the budget year. The work is typically either of a mandatory nature, in light of the statutory
16 obligation to connect new customers, or includes customer contributions to offset costs.

17 Reference: CA-NP-200.

18
19 Newfoundland Power submits that historical data averaged over a relevant period of time is a
20 reasonable way of forecasting expenditures in the budget year in light of the inherent
21 uncertainties in the underlying drivers of the work. Actual expenditures incurred for all of these
22 programs are directly attributable to the actual work that occurs in the year and are not driven
23 by the budget estimates. The Board has also acknowledged this statement.

24 Reference: CA-NP-083; Board correspondence dated November 7, 2023.

1 Newfoundland Power submits that proposed 2024 expenditures associated with the
2 *Reconstruction program, Rebuild Distribution Lines program, Relocate/Replace Distribution*
3 *Lines for Third Parties program, Replacement Transformers program, New Transformers*
4 *program, New Street Lighting program, Replacement Street Lighting program, Substation*
5 *Replacements Due to In-Service Failures program, and Transmission Line Maintenance program*
6 are required to provide reliable service at the lowest possible cost, and provide equitable access
7 to an adequate supply of power and should be approved.

8

9 **7.0 CONCLUSIONS**

10 **7.1 Capital Expenditures**

11 The projects and programs proposed in the Application are necessary to: (i) respond to
12 customer growth and changes in customer requirements; (ii) replace deteriorated, deficient or
13 failed equipment; (iii) respond to mandatory requirements; (iv) address safety and
14 environmental issues; or (v) maintain or improve operational efficiencies and customer service
15 levels.

16

17 Hydro does not object to any of the capital expenditures proposed in the Application. The
18 submission of the Consumer Advocate does not challenge the need or justification of any
19 project or program proposed in the Application. The record of this proceeding together with
20 this submission have fully addressed the general and specific issues raised in the Consumer
21 Advocate's submission.

22

23 The Company submits that its justification for proposed capital projects and programs are
24 based on sound engineering judgments that have not been contradicted by any evidence on the
25 record. The 2024 Capital Budget includes consideration of all reasonable alternatives and

1 demonstrates that the proposed projects and programs are necessary to maintain safe and
2 adequate facilities, and to provide electrical service that is least cost, reliable and
3 environmentally responsible.

4
5 Newfoundland Power submits that pursuant to Section 41(1) of the *Public Utilities Act*, single-
6 year 2024 capital expenditures of \$84,583,000 comprising projects and programs costing in
7 excess of \$750,000, single-year 2024 capital expenditures of \$10,514,000 comprising projects
8 and programs costing \$750,000 and under, and multi-year capital expenditures of \$5,234,000 in
9 2024, \$19,414,000 in 2025 and \$297,000 in 2026 should be approved. Including \$14,921,000
10 in 2024 capital expenditures associated with multi-year projects previously approved by the
11 Board, the 2024 Capital Budget of \$115,252,000 represents the capital expenditures required in
12 2024 to meet Newfoundland Power's statutory obligations, including the delivery of reliable
13 service to its customers at the lowest possible cost, in an environmentally responsible manner.

14 15 **7.2 Rate Base**

16 Newfoundland Power has requested that the Board fix and determine the Company's 2022
17 average rate base. Schedule D to the Application shows Newfoundland Power's actual average
18 rate base for 2022.

19
20 The Board's financial consultants, Grant Thornton, have reviewed the calculation of
21 Newfoundland Power's 2022 actual average rate base and confirmed that it is accurate and in
22 accordance with established practice and Board Orders.

23 Reference: Grant Thornton, Letter to the Board Re: Newfoundland Power Inc. - 2024 Capital
24 Budget Application, dated August 30, 2023.

1 Based upon the evidence before the Board, and pursuant to Section 78 of the *Public Utilities*
2 *Act*, the Board should fix and determine Newfoundland Power's average rate base for 2022 at
3 \$1,230,434,000.

4

5 **RESPECTFULLY SUBMITTED** at St. John's, Newfoundland and Labrador, this 4th day of
6 December, 2023.



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