

1 **Q.** (Reference CA-NP-014) The 2024 Capital Budget Overview (page 2) states
 2 "*The Electrical Power Control Act, 1994 contains the provincial power policy,*
 3 *which requires that power be delivered to customers at the lowest possible*
 4 *cost, in an environmentally responsible manner, consistent with reliable*
 5 *service.*"

6 a) Is spending approximately \$6 million on the MUN Substation and collecting
 7 this cost from customers who do not benefit from the expenditure
 8 necessary to meet this obligation?

9 b) How does NP define fairness, and how does spending approximately \$6
 10 million on the MUN Substation and collecting this cost from customers who
 11 do not benefit from the expenditure meet the fairness objective?

12 c) How does NP define "prudently incurred cost"?

13 d) Does spending approximately \$6 million on the MUN Substation, and
 14 collecting this cost from customers who do not benefit from the expenditure
 15 qualify as a prudently-incurred cost?

16
 17 A. a) In 2023, the Board approved supplemental capital expenditures of approximately
 18 \$1.6 million to purchase and install a replacement power transformer at Memorial
 19 ("MUN") Substation. The *Substation Refurbishment and Modernization* project
 20 included in Newfoundland Power's 2024 Capital Budget Application includes
 21 approximately \$4.4 million in capital expenditures necessary for MUN Substation.¹
 22 These expenditures together total approximately \$6 million.

23
 24 The capital expenditures already approved and those that are part of Newfoundland
 25 Power's 2024 Capital Budget Application are necessary to fulfill the Company's
 26 legislative obligations. The treatment of these capital expenditures is in accordance
 27 with Newfoundland Power's approved customer rates, policies, and methodologies
 28 and ensures costs are appropriately recovered from customers.

30 **MUN-T2**

31
 32 Capital expenditures associated with a failed power transformer at MUN Substation
 33 ("MUN-T2") were considered and approved by the Board in Order No. P.U. 14
 34 (2023). The Board recognized the necessity of the capital expenditures in Order No.
 35 P.U. 14 (2023) approving the expenditures:

36
 37 *The Board believes that delaying the project would present an unjustified*
 38 *risk to the provision of safe and reliable service. The Board is satisfied*
 39 *that the evidence demonstrates that it is necessary and appropriate to*
 40 *refurbish or replace MUN-T2 as soon as possible to return the Memorial*
 41 *Substation to its normal configuration to ensure the continued provision*
 42 *of safe and reliable service.*²

¹ See Newfoundland Power's 2024 Capital Budget Application, report 2.1 2024 Substation Refurbishment and Modernization, Appendix C: Memorial Substation Refurbishment and Modernization.

² See Order No. P.U. 14 (2023), page 3, lines 23-27.

1 In response to the Consumer Advocate’s request for the Board to re-hear the MUN-
2 T2 application, the Board stated:

3
4 *The Board is satisfied that the treatment of the MUN-T2 transformer*
5 *replacement at Memorial Substation is consistent with Newfoundland*
6 *Power’s approved cost of service and longstanding regulatory principles*
7 *and is in no way unfair or discriminatory.*³
8

9 **2024 Substation Refurbishment and Modernization**

10
11 MUN Substation was constructed in 1966. The long service life of much of the
12 equipment at MUN Substation has contributed to Newfoundland Power’s ability to
13 provide reliable service to customers at the lowest possible cost, in an
14 environmentally responsible manner, as required by legislation.

15
16 As part of the *2024 Capital Budget Application*, Newfoundland Power completed an
17 assessment of the assets at MUN Substation.⁴ The assessment determined that
18 capital expenditures of approximately \$4.4 million are necessary for Newfoundland
19 Power to continue to provide service in accordance with its legislative requirements
20 into the future.

21
22 For example, the 66 kV oil filled circuit breakers for transmission lines 12L and 14L
23 serving the 66 kV transmission system in St. John’s Region are 47 years old and are
24 at the end of their useful service lives.⁵ Similarly, the 12.5 kV circuit breakers
25 located at the substation are 50 years old and are at the end of their useful service
26 lives. Support from the manufacturers has been discontinued and replacement parts
27 are no longer available.⁶ Continuing to operate equipment that is beyond its service
28 life and requires replacement is not consistent with the Newfoundland Power’s
29 legislative obligations.

30
31 See the response to Request for Information CA-NP-181 for information related to
32 cost allocation.

- 33
34 b) Newfoundland Power has assumed that this Request for Information seeks to define
35 fairness in the context of customer rates.

36
37 Newfoundland Power assesses the fairness of its customer rates by comparing the
38 revenue collected from each rate class with the cost to serve that class, as
39 determined through an embedded cost of service study (the “revenue-to-cost ratio”).
40 Maintaining revenue-to-cost ratios within a range of 90% to 110% for each rate

³ See the Board’s letter *Re: Newfoundland Power Inc. – 2023 Capital Budget Supplemental Application – Approval for the Purchase and Installation of a Replacement Power Transformer for Memorial Substation – Response to Consumer Advocate’s Request for Re-hearing the Application*, July 7, 2023, page 2.

⁴ See Newfoundland Power’s *2024 Capital Budget Application*, report 2.1 *2024 Substation Refurbishment and Modernization, Appendix C: Memorial Substation Refurbishment and Modernization*.

⁵ *Ibid*, page 4.

⁶ *Ibid*, page 4.

1 class has been an accepted approach to achieving fairness in rate design by avoiding
2 undue cross-subsidization among the various customer classes.⁷
3

4 The Cost of Service Study filed as part of Newfoundland Power's *2022/2023 General*
5 *Rate Application* shows that revenues recovered from General Service Rate #2.4
6 customers, such as Memorial University, currently amount to 102.3% of their cost of
7 service.⁸ This demonstrates that customers, such as Memorial University, in the
8 General Service Rate #2.4 customer rate class are paying slightly more than their
9 cost of service. By comparison, the revenue to cost ratio of the Domestic customer
10 rate class was 96.6%, which means Domestic customers are paying slightly less than
11 their cost of service.⁹ The revenue-to-cost ratios for all of Newfoundland Power's
12 customer rate classes fall within the Board's accepted range of 90% to 110%.¹⁰
13

14 Evaluation of Newfoundland Power's customer rates and cost of service are typically
15 completed as part of a Newfoundland Power general rate application. This was
16 recognized by the Board in its Order approving supplemental capital expenditures
17 associated with MUN-T2.¹¹
18

19 As stated in Newfoundland Power's response to the Consumer Advocate's request to
20 re-hear the MUN-T2 application, and in the response to Request for Information
21 CA-NP-036, Newfoundland Power observes that the load profile of Memorial
22 University is expected to change substantially in the coming years due to the
23 planned installation of electric boilers, the addition of new buildings, and the
24 potential establishment of a capacity assistance agreement.¹² In the Company's
25 view, a review of the rates charged to Memorial University would be appropriate
26 when these changes materialize to ensure the University continues to pay rates that
27 are consistent with the cost of providing it with electrical service. Newfoundland
28 Power is also completing an updated rate design review, similar to the *Retail Rate*
29 *Review* completed in 2010.¹³

⁷ This is consistent with the views of the Board as expressed in Order No. P.U. 7 (1996-97), which stated: "*The Board agrees with the philosophy that it is not necessary to achieve a 100% revenue to cost ratio for all classes and takes no exception to a variance of up to 10%.*"

⁸ See Newfoundland Power's *2022/2023 General Rate Application*, Volume 1, Table 5-5, page 5-7.

⁹ Ibid.

¹⁰ Ibid.

¹¹ See Order No. P.U. 14 (2023), page 5, lines 12-15.

¹² Memorial University is currently undertaking a project to convert its oil-fired boilers to electric boilers. The project is supported by the provincial and federal governments to reduce greenhouse gas emissions. Incremental electricity revenue from Memorial University is expected to have rate mitigation benefits over the long term. See the Government of Newfoundland and Labrador, [Protecting You from the Cost Impacts of Muskrat Falls, April 2019](#).

¹³ The *Retail Rate Review* consisted of a comprehensive review of Newfoundland Power's domestic and general service rates and an evaluation of alternative rates. The review commenced following Newfoundland Power's *2008 General Rate Application* and was completed in 2010. Recommendations from the review were implemented, as appropriate, in subsequent years. Proposals approved by the Board in Order No. P.U. 2 (2019) concluded implementation of the recommendations outlined in the *Retail Rate Review*. The updated *Rate Design Review* formed part of the Settlement Agreement associated with Newfoundland Power's *2022/2023 General Rate Application*.

- 1 See the response to Request for Information CA-NP-181 for information related to
2 cost allocation within the General Service Rate #2.4 customer rate class.
3
- 4 c) A prudently incurred cost is one that is consistent with the provision of service to
5 customers at the lowest possible cost in a safe, adequate, reliable and
6 environmentally responsible manner.¹⁴
7
- 8 Newfoundland Power submits that the *2024 Capital Budget Application* includes
9 comprehensive information that clearly describes the Application's proposals and
10 demonstrates that all proposed capital expenditures are necessary to provide
11 customers with access to safe and reliable service at the lowest possible cost in an
12 environmentally responsible manner.
13
- 14 d) All costs either approved or proposed by Newfoundland Power in relation to MUN
15 Substation are considered by the Company to be prudent.
16
- 17 See part b) of this response and the response to Request for Information CA-NP-181
18 in relation to fairness in customer rates and cost allocation.

¹⁴ For further information, see Newfoundland Power's *2024 Capital Budget Application, 2024 Capital Budget Overview, Section 2.0 Application Context*.