

**CIAC Policy for Distribution Line Extensions and Upgrades to General Service Customers**

**Q. In P.U. 34 (2000-2001) Newfoundland Power requested a contribution in aid of construction for a line extension to serve the town of Pouch Cove. The amount to be paid by the customer that was requested by Newfoundland Power and approved by the Board was the full cost of the extension at \$34,886.69 (including HST). In P.U. 5(2023) Newfoundland Power estimated construction costs at \$3,312,783.51 for an Upgrade to Long Pond Substation serving Memorial University. The amount to be paid by the customer that was requested by Newfoundland Power and approved by the Board was \$0.00.**

- a) Please explain the rationale for each proposal by Newfoundland Power.**
- b) Please explain why an expenditure of over \$3.3 million at the Long Pond Substation which had already been classified as a duplicate supply facility to Memorial University did not require a contribution from the customer.**
- c) Why did Newfoundland Power not require a contribution from Memorial University for: i) the MUN-T2 transformer replacement with an estimated cost of \$1.6 million, ii) the Long Pond Substation upgrade at an estimated cost of \$3.3 million, and iii) the MUN Substation Refurbishment and Modernization project at an estimated cost of \$4.4 million?**
- d) Please identify the specific clauses in the Contribution in Aid of Construction policy that Newfoundland Power relied upon in deciding that a contribution from the customer in these cases was not justified.**
- e) Will/has Newfoundland Power filed an application with the Board for a contribution in aid of construction for the MUN-T2 and MUN Substation Refurbishment and Modernization project like it did for the Long Pond Substation upgrade?**
- f) Did the three projects for Memorial University enable the university to avoid \$9.3 million while adding \$9.3 million to Newfoundland Power's rate base?**
- g) How much of the \$9.3 million is allocated to each customer class in the cost of service study?**

**A. a)** Newfoundland Power requires a contribution from customers when the expected revenue to be recovered from the customer is insufficient to recover the cost of serving the customer. This is determined in accordance with Newfoundland Power's Contribution in Aid of Construction ("CIAC") Policy: Distribution Line Extensions and Upgrades to General Service Customers (the "General Service CIAC Policy").<sup>1</sup> Newfoundland Power's General Service CIAC Policy was applied in the same manner for both the town of Pouch Cove and Memorial University. In both circumstances, Newfoundland Power filed applications with the Board which were subsequently reviewed and approved.<sup>2</sup>

<sup>1</sup> See the response to Request for Information CA-NP-134, Attachment A, for a copy of Newfoundland Power's CIAC Policy.

<sup>2</sup> The Application in relation to the Town of Pouch Cove was approved in Order No. P.U. 34 (2000-2001). The Application in relation to Memorial University's Upgrade to the Long Pond ("LPD") Substation was approved in Order No. P.U. 5 (2023).

1 The referenced CIAC Application for the Town of Pouch Cove involved establishing  
2 single phase service to a water chlorination plant with an estimated peak demand of  
3 23.1 kW. The estimated construction costs to provide the requested service was  
4 \$38,775.00 and included construction of approximately 1,351 meters of distribution  
5 line. The Additional Load Based Investment of \$8,438.75 was calculated in  
6 accordance with Newfoundland Power's CIAC Policy and applied against the  
7 construction costs.<sup>3</sup> Since the estimated construction costs were greater than the  
8 Additional Load Based Investment, the customer was required to pay a contribution  
9 of \$34,886.69.<sup>4</sup>

10  
11 The CIAC Application for Memorial University involved upgrades to the Long Pond  
12 ("LPD") Substation to accommodate Memorial University's electric boiler load with  
13 an estimated peak demand of 25,000 kW. The estimated construction costs to provide  
14 the requested service were \$3,312,783.51 and included all necessary Newfoundland  
15 Power costs to upgrade the LPD Substation to supply the requested electric boiler  
16 load.<sup>5</sup> The Additional Load Based Investment of \$7,422,030 was calculated in  
17 accordance with Newfoundland Power's CIAC Policy. Since the estimated  
18 construction costs were less than the Additional Load Based Investment, the customer  
19 was not required to pay a contribution.

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21 To summarize, the electricity rate revenue to be recovered from the Town of Pouch  
22 Cove was insufficient to recover the cost of the service to the water chlorination  
23 plant. As a result, the Town of Pouch Cove was required to pay a contribution.  
24 Conversely, the electricity rate revenue to be recovered from Memorial University  
25 was sufficient to recover the cost of the new electric boiler load. As a result,  
26 Memorial University was not required to pay a contribution.

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28 b) See the response to part a).

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30 c) The reasons Newfoundland Power did not require a contribution from Memorial  
31 University for the MUN-T2 transformer replacement are detailed in the Order  
32 approving the project. See Order No. P.U. 14 (2023).

33  
34 The reasons Newfoundland Power did not require a contribution from Memorial  
35 University for the referenced LPD Substation upgrade are provided in part a).

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37 The reason Newfoundland Power did not require a contribution from Memorial  
38 University for the MUN Substation Refurbishment and Modernization project are  
39 because it would be inconsistent with Newfoundland Power's approved *Schedule of*  
40 *Rates, Rules and Regulations*, CIAC Policy and cost of service methodology.

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<sup>3</sup> Additional Load Based Investment is the amount of construction cost that is offset by the rates that will be paid by the customer.

<sup>4</sup> (\$38,775.00 – 8,438.75) + H.S.T. = \$34,886.69

<sup>5</sup> This included all costs associated with a 66kV-12.5kV 25 MVA power transformer, extension of the LPD Substation high voltage structure, breakers, protection and control equipment, other auxiliary equipment, site work, and operating and maintenance costs.

- 1 d) Newfoundland Power’s General Service CIAC Policy outlines the methodology  
2 approved by the Board for determining general service customer contributions.  
3 Section 1. *The Policy: General* provides the overall purpose of the General Service  
4 CIAC Policy. It states:

5  
6 *“The Company will provide Line extensions or Upgrades for Permanent Service  
7 to General Service Customers without a CIAC when the cost to provide and  
8 maintain the Line extension or Upgrade will be recovered through electricity  
9 rates paid by those customers. Otherwise, a CIAC calculated in accordance with  
10 this policy will be required.”*<sup>6</sup>

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12 Specific sections of the General Service CIAC Policy that detail the methodology for  
13 calculating a general service customer CIAC are: Section 3. *Basic Investment*; Section  
14 4. *Additional Investment*, and Section 5. *Calculation of CIACs*.<sup>7</sup>

- 15  
16 e) No, Newfoundland Power will not file an Application for a CIAC for the MUN-T2 or  
17 MUN Substation Refurbishment and Modernization Project. The costs associated  
18 with providing service to Memorial University are fully recovered through the rates  
19 paid by Memorial University.  
20

21 To further demonstrate the adequacy of cost recovery regarding Memorial University,  
22 if a new customer with the same load profile as Memorial University were to request  
23 service from Newfoundland Power, the Additional Load Based Investment that would  
24 be provided to the customer would be approximately \$12 million. This is in excess of  
25 the expenditures referenced in this request for information.  
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- 27 f) No. Memorial University is paying the cost necessary to serve its load through its  
28 customer rates. Requiring Memorial University to pay \$9.3 million in addition to the  
29 rates it pays as a General Service Rate #2.4 customer would result in Memorial  
30 University incurring \$9.3 million in unwarranted additional costs for its electricity  
31 service from Newfoundland Power.  
32

- 33 g) The capital expenditures that are directly attributable to Memorial University would  
34 be allocated to the General Service Rate #2.4 customer rate class. These capital  
35 expenditures amount to \$7.2 million and include: (i) \$1.6 million associated with the  
36 MUN-T2 transformer; (ii) \$2.3 million of the \$4.4 million associated with the MUN  
37 Substation Refurbishment and Modernization project<sup>8</sup>; and (iii) \$3.3 million  
38 associated with serving new load from the LPD Substation.<sup>9</sup> Similarly, all revenue  
39 from Memorial University, including additional revenue from the electric boiler  
40 project, would be allocated to the General Service Rate #2.4 customer rate class.

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<sup>6</sup> See General Service CIAC Policy, page 1.

<sup>7</sup> Ibid., pages 4-7.

<sup>8</sup> See the response to Request for Information CA-NP-181 filed in relation to Newfoundland Power’s 2024  
*Capital Budget Application*.

<sup>9</sup> Of the \$4.4 million in capital expenditures that were approved in Newfoundland Power’s 2024 *Capital Budget  
Application*.

1           The remaining \$2.1 million in capital expenditures are associated with transmission  
2           equipment located at MUN Substation that form part of the 66 kV transmission  
3           system serving customers in St. John’s Region. This equipment is considered  
4           common and will therefore be allocated to all Newfoundland Power customer rate  
5           classes in accordance with Newfoundland Power’s Cost of Service methodology.<sup>10</sup>

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<sup>10</sup> The Company’s cost of service methodology has been approved by the Board since it was reviewed in detail as part of the Company’s *2003/2004 General Rate Application*. In Newfoundland Power’s *2003/2004 General Rate Application*, Newfoundland Power presented detailed evidence on its cost of service study methodology. Through a mediation process, the parties at the hearing recommended the approval of the cost of service study methodology. In Order No. P.U. 19 (2003), the Board approved the recommendations as presented in the evidence and the Mediation Report. In Order No. P.U. 32 (2007), the Board stated that it was satisfied that Newfoundland Power’s cost of service study and methodology were appropriate to be used in establishing 2008 customer rates. At Newfoundland Power’s 2010, 2013/2014, 2016/2017, 2019/2020, and 2022/2023 general rate applications, the results of the Company’s cost of service studies were accepted for use in establishing customer rates.