

IN THE MATTER OF THE
2013 CAPITAL BUDGET APPLICATION

FILED BY

NEWFOUNDLAND POWER INC.

**DECISION AND ORDER
OF THE BOARD**

ORDER No. P. U. 31(2012)

BEFORE:

**Darlene Whalen, P.Eng.
Vice-Chair**

**Dwanda Newman, LL.B.
Commissioner**

**James Oxford
Commissioner**

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. P. U. 31(2012)

IN THE MATTER OF the *Public Utilities Act*, RSNL 1990, c. P-47 (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 2013 Capital Budget of \$80,788,000;
- (b) approving certain capital expenditures related to multi-year projects commencing in 2013; and
- (c) fixing and determining its average rate base for 2011 in the amount of \$876,356,000.

BEFORE:

Darlene Whalen, P. Eng
Vice-Chair

Dwanda Newman, LL.B
Commissioner

James Oxford
Commissioner

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1 **I BACKGROUND**

2
3 **1. The Application**

4
5 Newfoundland Power Inc. (“Newfoundland Power”) filed its 2013 Capital Budget Application
6 (the “Application”) with the Board of Commissioners of Public Utilities (the “Board”) on June
7 28, 2012. In the Application Newfoundland Power requests that the Board make an Order:

- 8
9 a) approving Newfoundland Power’s purchase and construction in 2013 of the
10 improvements and additions to its property in the amount of \$80,788,000;
11 b) approving Newfoundland Power’s capital expenditures related to multi-year projects
12 commencing in 2013; and
13 c) fixing and determining Newfoundland Power’s average rate base for 2011 in the amount
14 of \$876,356,000.

15
16 In accordance with the legislation, regulations and Board guidelines the Application includes a
17 detailed explanation of each proposed expenditure, setting out a description, justification, costing
18 methodology and future commitments, if applicable. Additional studies and reports, including
19 detailed engineering reports, are provided in relation to a number of projects.

20
21 In compliance with previous Board Orders the Application also includes specific information
22 required to be filed, including a 5-year Capital Plan and evidence relating to deferred charges and
23 a reconciliation of average rate base to invested capital.

24
25 **2. Board Authority**

26
27 Section 41 of the *Act* requires a public utility to submit an annual capital budget of proposed
28 improvements or additions to its property for approval of the Board no later than December 15th
29 in each year for the next calendar year. In addition, the utility is also required to include an
30 estimate of contributions toward the cost of improvements or additions to its property which the
31 utility intends to demand from its customers.

32
33 Subsection 41(3) prohibits a utility from proceeding with the construction, purchase or lease of
34 improvements or additions to its property without the prior approval of the Board where (a) the
35 cost of the construction or purchase is in excess of \$50,000, or (b) the cost of the lease is in
36 excess of \$5,000 in a year of the lease.

37
38 Section 78 gives the Board the authority to fix and determine the rate base for the service
39 provided or supplied to the public by the utility and also gives the Board the power to revise the
40 rate base. Section 78 also provides the Board with guidance on the elements that may be
41 included in the rate base.

1 **3. Application Process**

2
3 Notice of the Application, including an invitation to participate, was published on July 7, 2012.
4 Details of the Application and supporting documentation were posted on the Board's website.

5
6 An intervention was received from the Consumer Advocate, Mr. Thomas Johnson. On July 20,
7 2012 the Consumer Advocate issued 80 Requests for Information ("RFIs") to Newfoundland
8 Power. The Board issued a further 9 RFIs on July 24, 2012. Newfoundland Power responded to
9 the 89 RFIs on August 3, 2012. The Consumer Advocate did not file additional intervenor
10 evidence or request a technical conference or oral hearing of the Application.

11
12 Grant Thornton, the Board's financial consultants, were retained to review the calculations of the
13 2011 actual average rate base. Grant Thornton filed a report on September 13, 2012 and copies
14 were provided to Newfoundland Power and the Consumer Advocate.

15
16 The Consumer Advocate filed a written submission on August 27, 2012 and Newfoundland
17 Power filed its brief of argument on August 31, 2012.

1 **II PROPOSED 2013 CAPITAL BUDGET**

2
3 **1. Overview**

4
5 Newfoundland Power's proposed total capital budget for 2013 is \$80,788,000. The proposed
6 expenditures by asset class are as follows:
7

<u>Asset Class</u>	<u>Budget (\$000s)</u>
Generation-Hydro	\$ 4,450
Generation-Thermal	284
Substations ¹	17,618
Transmission	5,371
Distribution	38,740
General Property	1,737
Transportation	2,950
Telecommunications	874
Information Systems	4,014
Unforeseen Allowance	750
General Expenses Capitalized	<u>4,000</u>
Total	<u>\$80,788</u>

8
9
10 **2. Evidence and Submissions**

11
12 Newfoundland Power provided detailed information supporting the overall capital budget for
13 2013 as well as the individual proposed expenditures. The supporting information for each of
14 the projects is comprehensive and consistent with the level of information filed in recent capital
15 budget applications and in accordance with the Board's Capital Budget Guidelines.
16

17 The Application proposes a 2013 capital expenditure of \$80,788,000, including \$7,095,000 in
18 2013 capital expenditures approved by the Board in Order No. P. U. 26(2011). Newfoundland
19 Power proposes two multi-year projects commencing in 2013 with expenditures of \$3,853,000 in
20 2014. Approximately 48% of the proposed expenditures is related to plant replacement and a
21 further 33% is attributed to customer/load growth.

¹ Includes \$7,095,000 in capital expenditures approved in Order No. P. U. 26(2011) as set out in Schedule C, pg. 1 of the Application.

1 The proposed 2013 capital budget is 4.5% higher than the 2012 capital budget of \$77,293,000
2 approved in Order No. P. U. 26(2011). From 2008 to 2012 Newfoundland Power's annual
3 capital program averaged \$73.0 million and, for 2013-2017, will average approximately \$86.4
4 million². Newfoundland Power states that this level of expenditure is broadly consistent on an
5 inflation adjusted basis with expenditures in the period 2008-2012. According to Newfoundland
6 Power, the higher forecast expenditure level for the period 2012-2017 is principally the result of
7 inflation.

8
9 Replacement of plant has been, and will continue to be, the dominant driver of Newfoundland
10 Power's capital budget, accounting for approximately 51% of the total expenditure for the 10-
11 year period from 2008 to 2017. Capital expenditures required to provide service to new
12 customers and to meet the requirements for increased system capacity over the same 10-year
13 period account for approximately 32% of total capital expenditures³. Newfoundland Power
14 notes that, for the period 2013 to 2017, forecast requirements include additional power
15 transformers due to load growth, the phase out of PCB equipment, changes in meters due to
16 changes in meter regulations, the Rattling Brook fish pass, the replacement of Pierre's Brook
17 penstock, a portable substation and additional mobile generation. Newfoundland Power points
18 out that these additional capital costs will be offset by reduced expenditure on plant replacement
19 and reliability improvement.

20
21 The Consumer Advocate raised specific concerns and objections in relation to four proposed
22 projects: i) Customer Call Back Technology; ii) Group Billing Enhancements; iii) Kenmount
23 Road Building Washroom Refurbishment; and, iv) Soldiers Pond Outlet Replacement. The
24 Consumer Advocate states that in the context of legitimate concerns about the increasing levels
25 of planned capital expenditures of the utilities, these projects do not appear to be justified.

26 27 Customer Call Back Technology (\$170,000)

28
29 Newfoundland Power is proposing enhancements to support customer service delivery in the
30 areas of customer call-back technology and group billing. The customer call-back technology is
31 proposed to improve the process of handling customer calls to the Customer Contact Center
32 ("CCC"). According to the Application this technology, also known as virtual hold, will allow
33 CCC staff to manage incoming calls by providing customers with the choice to either wait on-
34 hold to speak with an agent or to receive a call-back within a specified period of time.

35
36 Newfoundland Power justifies this project on the basis of improved customer service, increased
37 customer satisfaction and cost savings. According to Newfoundland Power implementation of
38 this technology will reduce its overall requirement for temporary labour in the CCC and reduce
39 long distance phone charges related to customers waiting in the call queue.

² Application, 2013 Capital Plan, pg. 6

³ Application, 2013 Capital Plan, pg. 7

1 The Consumer Advocate questions whether this technology will reduce the overall requirement
2 for temporary labour. In outage situations the call volume is actually higher and customers will
3 be expecting an agent call back within the specified time. In these cases agents will still be
4 required to handle these calls. The Consumer Advocate also states that, since customer
5 complaints are not logged in the current system, there is no evidence of complaints related to
6 wait times to support Newfoundland Power's claim that this technology will improve customer
7 service and satisfaction.

8
9 Newfoundland Power points out that the CCC is staffed based on expected call volumes and
10 cyclical patterns, and argues that this technology will improve its ability to effectively match
11 staffing levels with average call volume, based on historical trends. This will, according to the
12 company, tend to reduce the overall requirement for temporary employees, which are called in to
13 offset shortfalls in regular staff availability. Newfoundland Power calculates that this project has
14 a positive net present value of \$62,000. Newfoundland Power argues that this project should be
15 approved as it will result in cost savings, customer service improvement and operational
16 efficiencies.

17
18 Group Billing Enhancements (\$116,000)

19
20 As described above the customer service enhancements proposed by Newfoundland Power also
21 include group billing enhancements, which are intended to improve the company's ability to
22 respond to requests for alternate billing programs such as consolidated or group billing for
23 customers with multiple accounts. According to the Application this project will reduce the
24 manual effort currently associated with offering multiple billing group options, which involve
25 customizing a customer's electricity bill and attachments. This project is aimed at approximately
26 12% of customers (CA-NP-70)

27
28 Newfoundland Power justifies this project in improved customer service and satisfaction,
29 reduced customer contacts and also a reduction in the amount and complexity of software to be
30 maintained.

31
32 The Consumer Advocate points out that, according to Newfoundland Power's responses to CA-
33 NP-71 and CA-NP-73, the current system meets the requirements of customers and only
34 "occasionally" does not meet requests, despite being twenty years old. The Consumer Advocate
35 submits that if the current system is working with little issue there is no need to move to an
36 automated service at this time.

37
38 Newfoundland Power explains that components of the group billing program are twenty years
39 old and are difficult to tailor to the individual requirements of large customers and that the
40 manual revision of bills to meet the needs of these customers requires significant effort by CCC
41 staff on a daily basis. Newfoundland Power submits that the group billing enhancements will
42 allow more customers to take advantage of group billing. Newfoundland Power calculates that
43 this project has a positive net present value of approximately \$27,000. Newfoundland Power

1 argues that this project should be approved since it will result in cost savings, customer
2 service improvement and operational efficiencies.

3 Kenmount Road Building Washroom Refurbishment (\$134,000)
4

5 Newfoundland Power proposes to complete office renovations at its Kenmount Road building.
6 This project includes retrofit of the existing 8 washrooms in the building. According to CA-NP-
7 60 the costs associated with renovations to the eight washrooms is \$134,000.
8

9 The Consumer Advocate submits that, for the most part, it appears that the majority of the
10 \$134,000 is planned for cosmetic renovations. In the absence of evidence of a functional
11 problem with the washroom facilities and information on the issues with the plumbing and
12 ventilation the Consumer Advocate argues this project should not be approved.
13

14 Newfoundland Power submits that the washrooms were constructed between 1968 and 1979 and
15 that the components are worn and deteriorated. Newfoundland Power states that the evidence is
16 uncontroverted that, due to wear and deterioration, the washrooms require a complete retrofit,
17 including replacement of tiles and fixtures and upgrading of the plumbing and ventilation.
18 Newfoundland Power submits that the project should be approved based on identified need.
19

20 Soldiers Pond Outlet Replacement (\$225,000)
21

22 Newfoundland Power proposes to replace the existing timber outlet structure and gabion wing
23 walls at its Soldiers Pond facility. According to the Application the lower sections of the gabion
24 wing walls have corroded and are losing ballast, increasing the risk of collapse. As well the
25 existing structure is used as a pedestrian bridge by the public and does not have safety railings
26 since they cannot be accommodated with the existing design. Newfoundland Power states that a
27 more robust wing wall design that incorporates appropriate safety measures is required.
28

29 The Consumer Advocate submits that there is no evidence that the existing timber outlet
30 structure is deteriorated and questions the need for replacement at this time. The need to replace
31 the gabions is evident however, even though the replacement would be occurring 20 years before
32 it had been anticipated. The Consumer Advocate submits that only work that is necessary to
33 make the structure operational should be approved and, accordingly, work and expenditures in
34 relation to the existing timber outlet structure should not be approved.
35

36 In reply Newfoundland Power confirms its plan to replace the entire outlet structure, including
37 the existing timber gate structure and the rock gabion wing walls. Newfoundland Power submits
38 that the existing structure cannot accommodate safety railings which, in accordance with
39 Canadian Dam Association Guidelines for Public Safety, ought to be provided. Newfoundland
40 Power references the engineering report submitted in support of the Facility Rehabilitation
41 project which recommends replacement of the entire Soldiers Pond outlet structure to ensure
42 continued provision of safe, reliable generating plant operations. Newfoundland Power also
43 notes that the entire timber outlet structure will be replaced with a monolithic concrete structure
44 with an expected life of 50 years. Newfoundland Power submits that there is no evidence on the

- 1 record that supports the idea that providing an outlet structure with a more robust wing wall
- 2 design can be feasibly accomplished without replacing an entire outlet structure.

1 **3. Board Findings**

2
3 The Board has reviewed the evidence and submissions in relation to the four projects raised by
4 the Consumer Advocate. The evidence shows that the projects related to Customer Call Back
5 Technology and Group Billing Enhancements have positive net present values and will improve
6 customer service. The Kenmount Road Building Washroom Refurbishment is also supported by
7 the evidence which shows that these facilities are thirty to forty years old, are worn and
8 deteriorated and are in need of upgrade. The Soldiers Pond Outlet Replacement is necessary
9 based on the evidence that the lower sections of the gabion wing walls have corroded and are
10 losing ballast and further that the existing structure cannot accommodate the recommended
11 safety railings. Based on the evidence all four of these projects have been justified and will be
12 approved.

13
14 The Board has undertaken a full review of the Application and the evidence filed. The five-year
15 capital plan sets out the following projections for Newfoundland Power's capital spending for
16 the period 2013-2017:
17

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Projected Capital Budget (\$000s)	\$80,788	\$83,218	\$91,358	\$86,946	\$89,479

18
19 This plan projects an average annual capital expenditure level of approximately \$86 million.
20 The Board notes that, while Newfoundland Power's capital spending level is trending upward,
21 the evidence shows that level of capital spending is broadly consistent, on an inflation adjusted
22 basis, with spending in the period 2008-2012. Replacement of plant and capital expenditures
23 necessary to satisfy customer growth and to meet the requirements of increased system capacity
24 are the main drivers for the spending. The Board finds that Newfoundland Power's capital
25 proposals are reasonable in the circumstances.

26
27 Based on the documentation and evidence on the record the Board finds that the proposed 2013
28 capital purchases and construction projects in excess of \$50,000 are prudent, reasonable and
29 necessary for Newfoundland Power to continue to provide safe and reliable service and should
30 be approved. The Board also finds that the proposed expenditures in 2014 of \$3,853,000 in
31 relation to multi-year projects commencing in 2013 should be approved. The Board finds that
32 the proposed total capital budget for 2013 is prudent and reasonable and will, therefore, approve
33 Newfoundland Power's 2013 Capital Budget in the amount of \$80,788,000.

1 **III. 2011 AVERAGE RATE BASE**
 2

3 The following table shows the calculation of the actual average rate base for 2011 compared with
 4 2010:

	(\$000s)	
	<u>2011</u>	<u>2010</u>
Net Plant Investment		
Plant Investment	1,371,678	1,393,801
Accumulated Amortization	(575,926)	(585,245)
Contributions in Aid of Construction	(29,013)	(30,266)
	<hr/> 766,739	<hr/> 778,290
Additions to Rate Base		
Deferred Pension Costs	97,628	102,549
Credit Facility Costs	270	258
Cost Recovery Deferral – Seasonal/TOD Rates	228	-
Cost Recovery Deferral- Hearing Costs	253	507
Cost Recovery Deferral – Regulatory Amortizations	1,642	-
Cost Recovery Deferral - Conservation	454	682
Customer Finance Programs	1,527	1,647
	<hr/> 102,002	<hr/> 105,643
Deductions from Rate Base		
Weather Normalization Reserve	5,020	1,954
Adjustment – 2010 Hearing Costs	6	-
Other Post Employment Benefits	7,199	-
Customer Security Deposits	695	705
Accrued Pension Obligation	3,778	3,548
Future Income Taxes	862	3,617
Demand Management Incentive Account	1,252	676
	<hr/> 18,812	<hr/> 10,500
Year End Rate Base	849,929	873,433
Average Rate Base Before Allowances	861,681	861,442
Rate Base Allowances		
Materials and Supplies Allowance	5,012	4,476
Cash Working Capital Allowance	9,663	9,292
	<hr/>	<hr/>
Average Rate Base at Year End	<hr/> 876,356	<hr/> 875,210

Source: Application, Schedule D

1 Grant Thornton reviewed the calculation of the actual average rate base for 2011 and provided an
2 opinion that the calculation is accurate and in accordance with established practice and previous
3 Board Orders. Grant Thornton also reviewed the additions, deductions and allowances included
4 in the rate base and found no discrepancies or unusual items or non-compliance with Board
5 Orders.

6

7 The Board will approve all of the components of and Newfoundland Power's average rate base
8 for 2011 in the amount of \$876,356,000.

1 IV ORDER
23 **IT IS THEREFORE ORDERED THAT:**
4

- 5 1. Newfoundland Power's 2013 capital purchases and construction projects in excess of
6 \$50,000, as set out in Schedule A to this Order, are approved.
7
- 8 2. Newfoundland Power's multi-year capital purchases and construction of additions to its
9 property in the amount of \$3,853,000 in 2014, as set out in Schedule B to this Order, are
10 approved.
11
- 12 3. The 2013 Capital Budget for improvements and additions to Newfoundland Power's
13 property in an amount of \$80,788,000 is approved, as set out in Schedule C.
14
- 15 4. The average rate base for the year ending December 31, 2011 is hereby fixed and
16 determined at \$876,356,000.
17
- 18 5. Unless otherwise directed by the Board, Newfoundland Power shall file an annual
19 report to the Board on its 2013 capital expenditures by March 1, 2014.
20
- 21 6. Unless otherwise directed by the Board, Newfoundland Power shall provide, in
22 conjunction with the 2014 Capital Budget Application, a status report on the 2013
23 capital budget expenditures showing for each project:
24
- 25 (i) the approved budget for 2013;
 - 26 (ii) the expenditures prior to 2013;
 - 27 (iii) the 2013 expenditures to the date of the application;
 - 28 (iv) the remaining projected expenditures for 2013;
 - 29 (v) the variance between the projected total expenditures and the approved
30 budget; and
 - 31 (vi) an explanation of the variance.
- 32
- 33 7. Newfoundland Power shall pay all costs and expenses of the Board incurred in
34 connection with the Application.

Dated at St. John's, Newfoundland and Labrador this 10th day of October 2012.

Darlene Whalen, P.Eng.
Vice-Chair

Dwanda Newman, LL.B.
Commissioner

James Oxford
Commissioner

Cheryl Blundon
Board Secretary

2013 CAPITAL PROJECTS (BY ASSET CLASS)

Capital Projects

Budget (000s)

1. Generation – Hydro

Facility Rehabilitation	\$ 1,400
Hydro Plant Production Increase	1,128
New Chelsea Plant Refurbishment	847
Pitman’s Pond Plant Refurbishment	875
Heart’s Content Plant Refurbishment ¹	200

Total Generation – Hydro **\$ 4,450**

2. Generation – Thermal

Facility Rehabilitation Thermal	\$ 284
---------------------------------	--------

Total Generation – Thermal **\$ 284**

3. Substations

Substations Refurbishment and Modernization	\$ 4,452
Replacements Due to In-Service Failures	2,685
PCB Bushing Phase-out	3,386

Total Substations **\$ 10,523**

4. Transmission

Transmission Line Rebuild ¹	\$ 5,371
--	----------

Total Transmission **\$ 5,371**

¹ First year of multi-year project see Schedule B

2013 CAPITAL PROJECTS (BY ASSET CLASS)

<u>Capital Projects</u>	<u>Budget (000s)</u>
5. Distribution	
Extensions	\$ 11,376
Meters	2,849
Services	3,705
Street Lighting	2,267
Transformers	7,983
Reconstruction	3,499
Rebuild Distribution Lines	2,997
Relocate/Replace Distribution Lines for Third Parties	2,554
St. John's Trunk Feeders	117
Feeder Additions for Growth	1,204
Allowance for Funds Used During Construction	189
<i>Total Distribution</i>	\$ 38,740
6. General Property	
Tools and Equipment	\$ 389
Additions to Real Property	238
Company Building Renovations	950
Stand-by and Emergency Power – Duffy Place	160
<i>Total General Property</i>	\$ 1,737
7. Transportation	
Purchase Vehicles and Aerial Devices	\$ 2,950
<i>Total Transportation</i>	\$ 2,950

2013 CAPITAL PROJECTS (BY ASSET CLASS)

<u>Capital Projects</u>	<u>Budget (000s)</u>
8. Telecommunications	
Replace/Upgrade Communications Equipment	\$ 124
Mobile Radio System Replacement	750
<i>Total Telecommunications</i>	\$ 874
9. Information Systems	
Application Enhancements	\$ 1,380
System Upgrades	1,177
Personal Computer Infrastructure	380
Shared Server Infrastructure	877
Network Infrastructure	200
<i>Total Information Systems</i>	\$ 4,014
10. Unforeseen Allowance	
Allowance for Unforeseen Items	\$ 750
<i>Total Unforeseen Allowance</i>	\$ 750
11. General Expenses Capitalized	
General Expenses Capitalized	\$ 4,000
<i>Total General Expenses Capitalized</i>	\$ 4,000

Newfoundland Power Inc.
2013 Capital Budget
Multi-Year Projects

<u>Project Description</u>	<u>Expenditure (000s)</u>	
	<u>2013</u>	<u>2014</u>
Heart's Content Plant Refurbishment ¹	\$200	\$3,495
Transmission Line Rebuild ²	<u>\$380</u>	<u>\$358</u>
	\$580	\$3,853

¹ A detailed project description can be found in the 2013 Capital Budget Application, Schedule B pages 11 and 12, and report **1.2 Heart's Content Hydro Plant Penstock Replacement**.

² A detailed project description can be found in the 2013 Capital Budget Application, Schedule B pages 29 to 31, and report **3.1 2013 Transmission Line Rebuild** (12L MUN to King's Bridge).

2013 CAPITAL BUDGET

<u>Asset Class</u>	<u>Budget (000s)</u>
1. Generation - Hydro	\$ 4,450
2. Generation - Thermal	284
3. Substations ¹	17,618
4. Transmission	5,371
5. Distribution	38,740
6. General Property	1,737
7. Transportation	2,950
8. Telecommunications	874
9. Information Systems	4,014
10. Unforeseen Allowance	750
11. General Expenses Capitalized	4,000
2013 Capital Budget	<u>\$ 80,788</u>

¹ Includes \$7,095,000 in expenditures approved in Order No. P. U. 26(2011).

Newfoundland & Labrador

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