
Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**IN THE MATTER OF THE
2018 CAPITAL BUDGET APPLICATION**

**FILED BY
NEWFOUNDLAND POWER INC.**

**DECISION AND ORDER
OF THE BOARD**

ORDER NO. P.U. 37(2017)

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. 37(2017)

IN THE MATTER OF the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 (the “EPCA”) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the “Act”), as amended, and regulations thereunder; 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 a 2018 Capital Budget of \$83,876,000;
- (b) approving certain capital expenditures related to multi-year projects commencing in 2018; and
- (c) fixing and determining a 2016 rate base of \$1,061,044,000.

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 2018 capital budget application (the
6 “Application”) with the Board of Commissioners of Public Utilities (the “Board”) on July 7,
7 2017. In the Application Newfoundland Power requests that the Board make an order:

- 8
9 (a) approving a 2018 Capital Budget of \$83,876,000;
10 (b) approving certain capital expenditures related to multi-year projects commencing in
11 2018; and
12 (c) fixing and determining a 2016 rate base of \$1,061,044,000.

13
14 Notice of the Application, including an invitation to participate, was published on July 22, 2017.
15 Details of the Application and supporting documentation were posted on the Board’s website.

16
17 On August 1, 2017 Newfoundland and Labrador Hydro (“Hydro”) advised the Board that it did
18 not intend to intervene but reserved the right to seek leave to intervene should something arise
19 that is of a subject matter upon which Hydro’s perspective can be of assistance to the Board. An
20 intervention was received on August 8, 2017 from the Consumer Advocate, Dennis Browne.

21
22 On August 7, 2017 seven Requests for Information (“RFIs”) were issued to Newfoundland
23 Power by the Board. On August 9, 2017 15 RFIs were issued to Newfoundland Power by the
24 Consumer Advocate. On August 18, 2017 three additional RFIs were issued to Newfoundland
25 Power by the Consumer Advocate. On August 25, 2017 Newfoundland Power responded to the
26 RFIs from the Board and the Consumer Advocate.

27
28 Grant Thornton LLP (“Grant Thornton”), the Board’s financial consultant, was retained to
29 review the calculations of the 2016 average rate base. Grant Thornton filed a report on August
30 31, 2017 and copies were provided to Newfoundland Power, the Consumer Advocate and Hydro.

31
32 Hydro advised on September 8, 2017 that it did not have any comments on the Application. On
33 September 18, 2017 the Consumer Advocate filed a written submission. Newfoundland Power
34 filed its reply submission on September 22, 2017.

35
36 **2. Board Authority**

37
38 Section 41 of the *Act* requires a public utility to submit an annual capital budget of proposed
39 improvements or additions to its property for approval of the Board no later than December 15th
40 in each year for the next calendar year. In addition, the utility is also required to include an
41 estimate of contributions toward the cost of improvements or additions to its property which the
42 utility intends to demand from its customers.

43
44 Subsection 41(3) prohibits a utility from proceeding with the construction, purchase or lease of
45 improvements or additions to its property without the prior approval of the Board where (a) the
46 cost of the construction or purchase is in excess of \$50,000, or (b) the cost of the lease is in
47 excess of \$5,000 in a year of the lease.

1 Section 78 gives the Board the authority to fix and determine the rate base for the service
 2 provided or supplied to the public by the utility and also gives the Board the power to revise the
 3 rate base. Section 78 also provides the Board with guidance on the elements that may be
 4 included in the rate base.

7 **II PROPOSED 2018 CAPITAL BUDGET**

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

14 The Application also includes specific information required to be filed in compliance with
 15 previous Board Orders, including a status report on 2017 capital expenditures, a five-year capital
 16 plan, as well as evidence relating to deferred charges and a reconciliation of average rate base to
 17 invested capital.

19 **1. Overview**

21 Newfoundland Power's proposed 2018 capital budget is \$83,876,000, with estimated
 22 expenditures by asset class as follows:

<u>Asset Class</u>	<u>Budget (000s)</u>
1. Generation - Hydro	\$ 2,119
2. Generation - Thermal	6,301
3. Substations	12,788
4. Transmission	7,168
5. Distribution	38,857
6. General Property	1,763
7. Transportation	3,362
8. Telecommunications	198
9. Information Systems	6,570
10. Unforeseen Allowance	750
11. General Expenses Capitalized	<u>4,000</u>
Total	\$ 83,876

23 The proposed 2018 capital budget includes:

- 24 • \$1.4 million of 2018 multi-year capital expenditures previously approved in Order No.
 25 P.U. 39(2016)
- 26 • \$14.4 million for proposed multi-year projects commencing in 2018 with future
 27 expenditures of \$17.3 million in 2019, \$3.8 million in 2020 and \$3.75 million in 2021
- 28 • \$2.5 million for contributions in aid of construction from customers

1 The Application states that approximately 54% of the proposed 2018 capital expenditures is
2 related to the replacement of plant and a further 21% is required to meet Newfoundland Power's
3 obligation to serve new customers and the requirement for increased system capacity.
4 Information Systems accounts for 8% of the proposed 2018 capital expenditures and the
5 remaining 17% is related to general expenses capitalized, third party requirements and financial
6 carrying costs. The Application explains that this allocation of capital expenditures is broadly
7 consistent with Newfoundland Power's capital budgets for the past five years.

8
9 Expenditures related to generation, substations, transmission and distribution account for \$67.3
10 million, or 80%, of the 2018 capital budget, with distribution capital expenditures comprising
11 46% of the proposed 2018 capital budget. According to Newfoundland Power these distribution
12 capacity expenditures are primarily driven by customer requests for new connections to the
13 system and rebuilding of aged and deteriorated infrastructure. Newfoundland Power noted that
14 distribution capital expenditures in 2018 and beyond are expected to reflect reduced new
15 customer connections and lower expenditures for meters with the deployment of Automatic
16 Meter Reading (AMR) meters completed in 2017. The 2018 estimate of 2,782 gross new
17 customer connections is the lowest it has been since 1999 when 2,737 new customers were
18 connected.

19
20 Newfoundland Power proposes 2018 expenditures of \$12.8 million related to substations,
21 including \$6.8 million for the refurbishment and modernization of the Harbour Grace and
22 Bayview substations, and \$3.8 million for replacements due to in-service failures. Newfoundland
23 Power also plans to automate an additional 12 distribution feeders, upgrade substation equipment
24 and software for monitoring and operations, and complete security upgrades at selected
25 substations.

26
27 Generation projects account for \$8.4 million of proposed 2018 capital budget. Newfoundland
28 Power proposes to replace an existing mobile generating unit at an estimated cost of \$13.9
29 million - \$6.0 million is proposed for 2018 with the remaining expenditure in 2019. The
30 remaining generation expenditures relate to rehabilitation at the company's hydro and thermal
31 facilities.

32
33 In 2018 Newfoundland Power will commence multi-year projects to rebuild transmission lines
34 302L on the Burin Peninsula and 363L on the Baie Verte Peninsula, which were originally
35 constructed in 1959 and 1963 respectively. Capital expenditures of \$5.1 million are planned for
36 2018, with future-year expenditures of \$3.1 million for 302L and \$10.4 million for 363L.
37 Additional transmission expenditures of \$2.1 million are estimated for 2018 for the replacement
38 of poles, crossarms, conductors, insulators and hardware arising from inspections, engineering
39 reviews or in-service failures.

40
41 Projects related to information systems, transportation, general property and telecommunications
42 account for \$11.9 million of the 2018 capital budget. Significant projects proposed in these areas
43 include replacement of heavy fleet, passenger and off-road vehicles (\$3.4 million), replacement
44 of the company's outage management system (\$2.4 million), and system upgrades (\$1.3 million).

45
46 Newfoundland Power's 2018 Capital Plan shows a forecast total capital expenditure for 2018-
47 2022 of \$470 million. Annual capital expenditures for 2018-2022 are forecast to average
48 approximately \$94.0 million, compared to an average annual capital expenditure of
49 approximately \$96.1 million for the period 2013-2017. This reduction in average annual

1 expenditures through the forecast period is due primarily to reduced forecast customer
2 requirements. Forecast capital requirements for the five-year period 2018-2022 include
3 additional power transformers due to forecast load growth in particular areas, new transmission
4 lines on the Northeast Avalon Peninsula, reconfiguration of the 138 kV transmission system
5 from Grand Falls to Gander, new mobile generation, gas turbine refurbishment, and the
6 replacement of important information technology, such as the Outage Management System and
7 the Customer Service System.

8
9 In his submission the Consumer Advocate raised the issue of the increasing levels of planned
10 capital for both utilities in the province and submitted that, while this issue has been raised in the
11 past, it has not been addressed. The Consumer Advocate stated:

12
13 With a declining and aging population and the rate pressures forecast with the
14 introduction of Muskrat Falls, affordable electricity is a real issue. The onus is on the
15 Applicant to prove its case and on the Board to ensure that proof is forthcoming in each
16 expenditure item.¹

17
18 The Consumer Advocate also expressed concerns with the process for the review of the capital
19 budgets and noted the relative expediency with which a capital budget application is conducted
20 in comparison to a general rate application. The Consumer Advocate characterized the process as
21 a “paper hearing” that could be described as “perfunctory” and questioned whether a paper
22 hearing is consistent with the legislation and regulations. According to the Consumer Advocate
23 this aspect of the capital budget process needs to be revisited and, as a minimum, a conference of
24 stakeholders should be convened where a detailed presentation of the proposed capital budget
25 can be made.

26
27 In reply Newfoundland Power submitted that its proposed capital expenditures for 2018 are
28 necessary to provide service to customers that is safe and adequate and just and reasonable and
29 that the proposals are consistent with the provision of least cost electrical service. To provide a
30 broad context Newfoundland Power explained that its 2018 Capital Plan provides an overview of
31 its capital management practice and how it is reflected in its annual capital budgets, as well as its
32 2018 Capital Budget and its 5-year capital outlook through 2022. Newfoundland Power stated
33 that overall planned capital expenditures for the 5-year period from 2018 through 2022 are
34 expected to be lower than those in the prior 5-year period. Newfoundland Power noted that there
35 was no evidence filed in this proceeding to contradict the engineering judgments reflected in the
36 Application or to demonstrate either that reasonable alternatives were not considered or that it is
37 preferable to not proceed with a project.

38
39 Newfoundland Power noted that the current Capital Budget Application Guidelines, which detail
40 the format, process, schedule and obligations of the utility and participating parties, are the
41 culmination of a multi-year capital budget review process involving electricity utilities, the
42 Board, an external regulatory expert and other stakeholders. With respect to the use of paper
43 hearings Newfoundland Power submitted that the use of written hearings, or paper hearings, is
44 consistent with the *Act* and the regulations promulgated under it and that the use of written
45 hearings is common in public utility regulation in Canada. Newfoundland Power also noted that
46 the Capital Budget Application Guidelines allow for public hearings with respect to larger and
47 more complex projects. Newfoundland Power submitted that the Board’s capital budget

¹ Consumer Advocate Submission, page 7

1 application practice and procedure provides for the efficient and effective oversight of utility
2 capital expenditures, allows for thorough and transparent examination of all capital expenditures,
3 and is in keeping with the regulatory mandate of the Board to balance the interests of consumers
4 and the utility.

5
6 The Board notes that oversight of a utility's capital expenditures is an important aspect of the
7 regulation of public utilities, especially given the potential impact of capital spending on rates. In
8 accordance with the provisions of the legislation a utility must apply to the Board for approval of
9 both its annual capital budget as well as projects over \$50,000. The annual application process is
10 set out in the Board's Capital Budget Guidelines which were developed in consultation with the
11 utilities and participating parties. The stated purpose of these guidelines is to "*provide clarity
12 and consistency in the submission of capital expenditures by a utility, while ensuring transparent
13 and fair oversight by the Board.*" The guidelines set out a schedule which spans 4 months from
14 filing to Board order, a timeframe which provides for RFIs and a technical conference and/or
15 hearing. Normally the capital budget application is addressed through a paper hearing, an
16 accepted administrative law practice permitted by the legislation and widely used by utility
17 regulators throughout Canada. While paper hearings provide an efficient and effective means of
18 providing for a full and transparent review, where requested by a party or on the Board's own
19 motion, the Board may determine that a technical conference or a public hearing is warranted in
20 the circumstances. The Board has reviewed the detailed evidence filed and is satisfied that the
21 Application was filed in accordance with the Capital Budget Guidelines and that there has been a
22 full and transparent review whereby interested persons, including the Consumer Advocate, were
23 provided a fair and reasonable opportunity to participate.

24
25 In terms of the overall level of the proposed 2018 Capital Budget, the Board notes that it is lower
26 than the approved annual capital budget for the period 2014-2017. It is also lower than the
27 forecast budgets for each year in the 2019-2022 forecast. Further the Board notes that no
28 evidence was filed to suggest that the proposed 2018 Capital Budget was not reasonable or
29 necessary to allow Newfoundland Power to meet its obligation to serve.

30 31 **2. Proposed Capital Projects**

32
33 Newfoundland Power's proposed 2018 capital budget includes 36 capital projects for which
34 approval is requested. The Consumer Advocate objected to Newfoundland Power's proposed
35 project to purchase and install a new mobile gas turbine to replace an existing unit, and also
36 raised concerns with expenditures related to Newfoundland Power's hydroelectric plants and real
37 property expenditures. The Consumer Advocate's submissions and Newfoundland Power's
38 reply, along with the Board's findings on each are set out below.

39 40 i) Purchase Mobile Generation

41
42 Newfoundland Power proposes a multi-year project with a 2018 capital expenditure of \$6.0
43 million and a 2019 expenditure of \$7.9 million to purchase and install a new mobile gas turbine
44 to replace its existing 43-year old unit, rated at 6,750 kW.² This unit has traditionally been used
45 for: i) support for customer outages, ii) construction projects, and iii) system support. According
46 to Newfoundland Power the existing unit has reached the end of its mobile service life. While the
47 generating equipment can provide some additional years of service a 2015 condition assessment

² Application, Tab 1.2 – Purchase Mobile Generation, pages 1 and 6

1 indicated overall poor condition of the trailers' chassis and equipment enclosures. Replacement
 2 of the mobile unit is proposed as the only viable option, with the existing unit to be installed at a
 3 permanent location for the remainder of its estimated five to ten years of useful service life.

4
 5 The Consumer Advocate argued that that this proposed expenditure “comes at a time when
 6 ratepayers are subject to upward rate pressure and when the province’s electricity system,
 7 including issues of supply, are subject to reconfiguration”.³ Within this context the Consumer
 8 Advocate stated that a number of items need to be considered before this particular purchase
 9 should proceed:

- 10 • The mobile gas turbine takes 48 hours to dismantle, transport, re-assemble, and prepare
 11 for generation.
- 12 • The recent purchase of diesel generators to facilitate black start generation of the thermal
 13 generators at the Holyrood Thermal Generating Station will negate the future use of the
 14 mobile gas turbine at that location.
- 15 • The mobile gas turbine has been used primarily as a means to offset construction outages
 16 and that such outages are planned and can be readily controlled by Newfoundland Power.
- 17 • While there will always be unplanned electricity outages, however despite that,
 18 Newfoundland Power's System Average Interruption Duration Index (“SAIDI”) and
 19 System Average Interruption Frequency Index (“SAIFI”) are better than the Canadian
 20 average.
- 21 • Since there is no evidence that the mobile gas turbine’s service life has ended and given
 22 that the mobile gas turbine is still operational, the Application is premature.

23
 24 The Consumer Advocate also noted that there are ratepayer sources of generation available at
 25 municipalities, hospitals, fire stations, and that even individual ratepayers that have their own
 26 emergency generation capabilities. The Consumer Advocate argued that these sources of
 27 generation negate the case for this expenditure. According to the Consumer Advocate
 28 Newfoundland Power has not made a strong enough case for a new mobile gas turbine and its
 29 purchase “would be extravagant” and would increase Newfoundland Power’s rate base
 30 unnecessarily. The Consumer Advocate submitted that the proposed expenditure for the mobile
 31 gas turbine should either be denied outright or delayed to a future date.

32
 33 In its reply submission Newfoundland Power noted that its proposal is to retire the existing gas
 34 turbine from mobile service due to its compromised roadworthiness, and that it will be
 35 maintained as a generator for the rest of its useful life. In addition Newfoundland Power also
 36 noted that the gas generator and power turbine on the existing unit are no longer manufactured
 37 and, with fewer similar units in service, there are fewer overhaul facilities available with the
 38 necessary expertise to refurbish this equipment.

39
 40 Newfoundland Power acknowledged that, because of the length of time required to prepare the
 41 mobile gas turbine, its use for unplanned outages is normally restricted to instances where power
 42 is anticipated to be unavailable for an extended period of time. According to Newfoundland
 43 Power:

44
 45 The scheduling of construction and maintenance outages is generally within
 46 Newfoundland Power’s control. However, the associated outages can only be avoided if
 47 an alternate supply of power is made available or hot-line work methods can be

³ Consumer Advocate’s Submission, page 4

1 employed. The choice between mobile generation and hot-line work methods is made
2 on an individual project basis.⁴

3
4 Newfoundland Power also submitted that the evidence shows that its better-than-average SAIDI
5 and SAIFI statistics are partially due to the contributions made by the existing mobile gas
6 turbine. Newfoundland Power noted that in 2015 the MGT was deployed in four locations to
7 avoid approximately 28 million customer outage minutes. It was also deployed in Port aux
8 Basques that same year avoiding a further six million customer outage minutes when Hydro was
9 performing transmission maintenance in the area.

10
11 With respect to customer owned generation Newfoundland Power stated that, irrespective of the
12 number of customer-owned generators, it still has an obligation to deliver power to all consumers
13 in the province as set out in the *EPCA*. In addition, Newfoundland Power noted that its mobile
14 generating units are typically utilized to supply emergency power to relatively large areas that
15 undergo a loss of supply for an extended period of time, as opposed to individual premises such
16 as municipal buildings, hospitals and fire stations. While continued service to critical customers
17 is particularly important, Newfoundland Power argued that it also has to provide emergency
18 power to the broader community during equipment failure or storm damage.

19
20 Newfoundland Power submitted that the mobile gas turbine provides the capability to respond to,
21 or avoid, emergency conditions for its customers that might arise by the loss of electrical service.
22 The mobile gas turbine is most deployed in rural areas of its service territory since the system in
23 urban centers usually has some redundancy. According to Newfoundland Power, failure to
24 replace the mobile gas turbine at the end of its mobile service life would result in inadequate
25 emergency generating facilities thereby hindering its ability to provide reasonably reliable
26 service to its customers.

27
28 The Board believes that the mobile gas turbine is an important asset for Newfoundland Power's
29 operations and supports the company's ability to supply power to customers in all service areas
30 on the island during extended outages, whether unplanned or planned. The evidence supports
31 Newfoundland Power's position that, while there is service life remaining in the gas turbine, due
32 to the poor condition of the trailer, roadworthiness cannot be maintained for much longer.
33 Newfoundland Power explained that the existing unit will be relocated to a permanent location
34 for the remainder of its useful life, which means that customers will continue to receive value
35 from the asset. The Board believes that the scheduling of the purchase of the new mobile unit to
36 coincide with the retirement of the old unit from mobile service is reasonable in the
37 circumstances. The Board does not agree with the Consumer Advocate that the request for this
38 expenditure is premature and is satisfied that this expenditure should be approved.

39
40 ii) Hydroelectric Plants

41
42 Newfoundland Power has 23 hydroelectric facilities that typically generate an annual production
43 of 438.6 GWh. The Consumer Advocate questioned the role that Newfoundland Power's 23
44 hydroelectric facilities will have once power from Muskrat Falls becomes available to the island.
45 According to the Consumer Advocate, until that role is determined, only necessary expenditures
46 on these plants should be considered. The Consumer Advocate raised questions related to the
47 dispute between the City of St. John's and Newfoundland Power concerning the Mobile River

⁴ Newfoundland Power's Submission, page 7

1 watershed area and suggested that, once Muskrat Falls power comes to the island, generation
2 duplication has to be addressed.

3
4 Newfoundland Power submitted that the hydroelectric plants provide relatively inexpensive
5 energy to the Island Interconnected System and that maintaining these hydroelectric generating
6 facilities mitigates the requirement for additional, more expensive supply. If replacement energy
7 from these hydroelectric plants was produced at Holyrood instead approximately 710,000
8 additional barrels of fuel would be consumed annually. This avoided cost of fuel at Holyrood
9 translates into approximately \$58 million in annual savings using Hydro's current oil price of
10 \$81.40 per barrel.

11
12 The Board notes that Newfoundland Power's proposed 2018 capital expenditures related to its
13 hydroelectric facilities are captured within the Facility Rehabilitation budget of \$2.119 million
14 and include the following projects:⁵

- 15 • refurbishment of Second Storage Pond Dam (\$351,000);
- 16 • rehabilitation of Horsechops tailrace tunnel (\$291,000);
- 17 • replacement of Tors Cove access road bridges (\$302,000);
- 18 • replacement of Rocky Pond turbine bearing (\$438,000);
- 19 • refurbishment of Rocky Pond powerhouse (\$169,000); and
- 20 • equipment replacements due to in-service failures (\$568,000).

21
22 The Board has reviewed the evidence filed in support of each of these projects and is satisfied
23 that the capital expenditures are reasonable and necessary to allow Newfoundland Power to
24 operate and maintain its facilities and buildings in a safe and efficient manner and that the capital
25 expenditures should be approved. The Board acknowledges that the issue of how Muskrat Falls
26 supply to the island will affect existing generation supply is important. The Board's
27 responsibility is to ensure capital expenditures are consistent with least-cost delivery of power.
28 Until supply from Muskrat Falls is available and while the Holyrood plant is still operating, the
29 evidence supports continued operation of these hydroelectric plants as providing least-cost power
30 to the system. The proposed projects are necessary to ensure that these facilities can continue to
31 operate efficiently and reliably to the benefit of the Island Interconnected system.

32
33 iii) Real Property Expenditures

34
35 Newfoundland Power is seeking approval of approximately \$1.3 million of capital expenditures
36 related to property. The Consumer Advocate raised concerns that much of these capital
37 expenditures would not occur if the expenditures were not included in Newfoundland Power's
38 rate base, adding that such expenditures are unsustainable. In its reply submission Newfoundland
39 Power detailed the individual property-related projects and noted that justification of each is
40 based on inspections by professional engineers or independent experts. Newfoundland Power
41 submitted that the expenditures are required in order to properly operate and maintain the
42 facilities and buildings in a safe and efficient manner.

⁵ Application, Section 1.1

1 The Board notes that Newfoundland Power's proposed 2018 capital expenditures related to real
2 property include:

- 3 • refurbish security fencing at two storage yards in St. John's (\$315,000)
- 4 • resurface 40-year old parking lot in Carbonear (\$298,000)
- 5 • miscellaneous refurbishment or replacement of equipment and facilities
6 (\$341,000)
- 7 • corporate security upgrades (\$100,000)
- 8 • water supply backflow protection at Duffy Place facility, St. John's (\$200,000)
- 9 • energy efficient lighting in various facilities (\$30,000)

10

11 The Board has reviewed the evidence filed in support of each of these projects and is satisfied
12 that the capital expenditures are reasonable and necessary to allow Newfoundland Power to
13 operate and maintain its facilities and buildings in a safe and efficient manner and should be
14 approved.

15

16 **3. Conclusion**

17

18 The Board has reviewed the proposed 2018 capital projects, the reports filed in support, the
19 additional information filed by Newfoundland Power in response to RFIs, and the final
20 submissions. Based on this review, the Board finds that the projects proposed in the 2018 capital
21 budget are adequately justified and are prudent, reasonable and necessary for Newfoundland
22 Power to continue to provide safe and reliable service. The Board is also satisfied that the
23 proposed capital budget for 2018 in the amount of \$83,876,000 should be approved.

1 **III 2016 AVERAGE RATE BASE**

2

3 The following table shows the calculation of the average rate base as of December 31 for 2016
4 compared with 2015:⁶

Newfoundland Power Inc.		
Computation of Average Rate Base		
For The Years Ended December 31		
(\$000's)		
	<u>2016</u>	<u>2015</u>
Net Plant Investment		
Plant Investment	1,741,193	1,665,762
Accumulated Depreciation	(694,843)	(668,641)
Contributions in Aid of Construction	<u>(36,094)</u>	<u>(34,238)</u>
	1,010,256	962,883
Additions to Rate Base		
Deferred Pension Costs	94,775	98,829
Deferred Credit Facility Costs	94	56
Cost Recovery Deferral – Seasonal/TOD Rates	-	49
Cost Recovery Deferral – Hearing Costs	682	-
Cost Recovery Deferral – Conservation	11,304	7,463
Weather Normalization Reserve	1,721	4,411
Customer Finance Programs	<u>1,341</u>	<u>1,211</u>
	109,917	112,019
Deductions from Rate Base		
Other Post-Employment Benefits	46,083	39,208
Customer Security Deposits	786	1,286
Accrued Pension Obligation	5,285	4,955
Accumulated Deferred Income Taxes	2,186	1,268
2016 Cost Recovery Deferral	1,445	-
Excess Earnings Account	<u>-</u>	<u>49</u>
	55,785	46,766
Year End Rate Base	1,064,388	1,028,136
Average Rate Base Before Allowances	1,046,262	1,006,063
Rate Base Allowances		
Materials and Supplies Allowance	6,464	6,280
Cash Working Capital Allowance	<u>8,318</u>	<u>6,739</u>
Average Rate Base at Year End	<u>1,061,044</u>	<u>1,019,082</u>

⁶ Application, Schedule D.

1 Grant Thornton reviewed the calculation of the average rate base for 2016 and provided an
2 opinion that the calculation is accurate and in accordance with established practice and Board
3 Orders. Grant Thornton also reviewed the additions, deductions and allowances included in the
4 rate base and found no discrepancies or unusual items, and that they are consistent with approved
5 Board Orders.

6
7 The Board finds that the components of Newfoundland Power's average rate base for 2016 in the
8 amount of \$1,061,044,000 should be approved.

9
10
11 **IV ORDER**


12
13 **IT IS THEREFORE ORDERED THAT:**

- 14
15 **1. Newfoundland Power's proposed construction and purchase of improvements or**
16 **additions to its property to be completed in 2018, as set out in Schedule A to this Order,**
17 **are approved.**
18
19 **2. Newfoundland Power's proposed multi-year construction and purchase of**
20 **improvements or additions to its property to begin in 2018, as set out in Schedule B to**
21 **this Order, are approved.**
22
23 **3. Newfoundland Power's 2018 Capital Budget for improvements or additions to its**
24 **property in an amount of \$83,876,000, as set out in Schedule C to this Order, is**
25 **approved.**
26
27 **4. Newfoundland Power's average rate base for the year ending December 31, 2016 is**
28 **hereby fixed and determined at \$1,061,044,000.**
29
30 **5. Unless otherwise directed by the Board, Newfoundland Power shall file an annual**
31 **report to the Board on its 2018 capital expenditures by March 1, 2019.**
32
33 **6. Unless otherwise directed by the Board, Newfoundland Power shall provide, in**
34 **conjunction with the 2019 Capital Budget Application, a status report on the 2018**
35 **capital budget expenditures showing for each project:**
36
37 **(i) the approved budget for 2018;**
38 **(ii) the expenditures prior to 2018;**
39 **(iii) the 2018 expenditures to the date of the application;**
40 **(iv) the remaining projected expenditures for 2018;**
41 **(v) the variance between the projected total expenditures and the approved**
42 **budget; and**
43 **(vi) an explanation of the variance.**
44
45 **7. Newfoundland Power shall pay all costs and expenses of the Board incurred in**
46 **connection with the Application.**

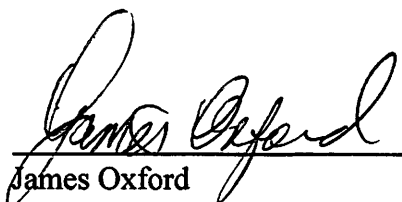
DATED at St. John's, Newfoundland and Labrador this 6th day of November, 2017.



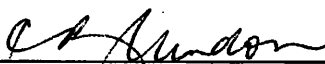
Darlene Whalen, P.Eng.
Vice-Chair



Dwanda Newman, LL.B.
Commissioner



James Oxford
Commissioner



Cheryl Blundon
Board Secretary

**Newfoundland Power Inc.
 2018 Capital Budget
 Single-Year Projects Over \$50,000
 (000s)**

<u>Project Description</u>	<u>2018</u>
<u>Generation - Hydro</u>	
Facility Rehabilitation	\$2,119
Total Generation - Hydro	<u>\$2,119</u>
<u>Generation - Thermal</u>	
Facility Rehabilitation Thermal	\$ 301
Total Generation - Thermal	<u>\$ 301</u>
<u>Substations</u>	
Substations Refurbishment and Modernization	\$ 8,001
Replacements Due to In-Service Failures	3,814
PCB Bushing Phase-out	973
Total Substations	<u>\$12,788</u>
<u>Transmission</u>	
Transmission Line Rebuild	\$2,100
Total Transmission	<u>\$2,100</u>
<u>Distribution</u>	
Extensions	\$11,738
Meters	546
Services	3,200
Street Lighting	1,814
Transformers	6,084
Reconstruction	5,366
Rebuild Distribution Lines	3,844
Relocate/Replace Distribution Lines for Third Parties	2,317
Trunk Feeders	798
Feeder Additions for Load Growth	220
Distribution Reliability Initiative	358
Distribution Feeder Automation	612
Allowance for Funds Used During Construction	210
Total Distribution	<u>\$37,107</u>

General Property

Tools and Equipment	\$ 479
Additions to Real Property	671
Company Buildings Renovations – Carbonear Parking Lot	298
Security Fencing Refurbishment	315
Total General Property	<u>\$1,763</u>

Transportation

Purchase Vehicles and Aerial Devices	<u>\$3,362</u>
Total Transportation	<u>\$3,362</u>

Telecommunications

Replace/Upgrade Communications Equipment	\$ 99
Fibre Optic Network	99
Total Telecommunications	<u>\$198</u>

Information Systems

Application Enhancements	\$ 858
System Upgrades	1,098
Personal Computer Infrastructure	472
Shared Server Infrastructure	648
Network Infrastructure	467
Total Information Systems	<u>\$3,543</u>

Unforeseen Allowance

Allowance for Unforeseen Items	<u>\$750</u>
Total Unforeseen Allowance	<u>\$750</u>

General Expenses Capitalized

General Expenses Capitalized	<u>\$4,000</u>
Total General Expenses Capitalized	<u>\$4,000</u>

Total Expenditures Single-Year Projects over \$50,000 **\$68,031**

**Newfoundland Power Inc.
 2018 Capital Budget
 Multi-Year Projects Over \$50,000
 (000s)**

Multi-Year Projects Commencing in 2018

Class	Project Description	2018	2019	2020	2021	Total
Generation Thermal	Purchase Mobile Generation	\$6,000	\$7,915			\$13,915
Transmission	Transmission Line Rebuild	5,068	6,064	3,600	3,750	18,482
Distribution	Feeder Additions for Growth	319	665			984
Information Systems	Microsoft Enterprise Agreement	245	245	245		735
Information Systems	Outage Management System	2,360	1,210			3,570
Information Systems	Human Resource Management System Replacement	422	1,215			1,637
	Total	\$14,414	\$17,314	\$3,845	\$3,750	\$39,323

Multi-Year Projects Approved in Previous Years

Class	Project Description	2018	2019	2020	2021
Distribution	Distribution Reliability Initiative	\$1,431			

**Newfoundland Power Inc.
2018 Capital Budget
(000s)**

Projects over \$50,000 to be completed in 2018	\$68,031
Multi-Year Projects over \$50,000 commencing in 2018	14,414
Multi-Year Projects Approved in Previous Years	1,431
Total 2018 Capital Budget	<u><u>\$83,876</u></u>

Newfoundland & Labrador

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
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