

1 **Q. At page 1 of the Capital Plan, NP characterizes the 2012 Capital Budget as “. . . part**
2 **of a series of stable and predictable annual capital budgets. . .” Does NP employ any**
3 **guidelines as to the overall quantum of its annual capital budget requests to the**
4 **Board? If yes, please explain the guidelines employed and if not, explain why**
5 **guidelines are not employed by NP.**

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7 A. Newfoundland Power does not employ any guidelines as to the overall quantum of its
8 annual capital budget applications. The Company does recognize that customers benefit
9 from stable and predictable year over year capital expenditures.¹ Accordingly a degree of
10 discretion is necessarily exercised in planning capital expenditures to achieve a
11 reasonable degree of stability in the Company’s annual capital budgets.²

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13 Newfoundland Power’s annual capital expenditures are predominantly driven by the need
14 to replace aged and deteriorated assets and to serve additional customers and additional
15 customer electricity usage. In addition, changes to regulatory requirements, such as those
16 related to federal PCB regulations and an order from the Department of Fisheries and
17 Oceans to provide fish passage, impact the Company’s annual capital expenditure
18 requirements.

19
20 The provision of service and facilities which are “reasonably safe and adequate and just
21 and reasonable” as required by Section 37(1) of the *Public Utilities Act* requires the
22 exercise of judgment. In particular, the timing and necessity of the investments to meet
23 the obligation to serve on a least cost basis involve engineering judgment.

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25 Decisions with respect to the inclusion of individual capital projects are made by the
26 Company’s professional engineers as part of the annual capital budgeting process.
27 Projects that are included in the annual capital budget applications are those which, in the
28 judgment of the Company’s professional engineering staff, are required to be completed
29 in the manner and in accordance with the schedule proposed.

¹ In Order P.U. 36 (2002-2003) the Board stated “more stable and predictable year over year capital budgets for NP is a desirable objective which will assist in fostering stable and predictable rates for customers in the future.”

² For example in its 2007 Capital Budget Application Newfoundland Power reduced capital expenditures in other asset classes in recognition of the \$18.2 million project to replace the penstock and to refurbish the Rattling Brook plant.