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HAND DELIVERED

August 8, 2014

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Ladies & Gentlemen:

Re: Newfoundland Power's 2015 Capital Budget Application – Brief of Argument

Enclosed are the original and 12 copies of Newfoundland Power's Brief of Argument.

For convenience, the Brief of Argument is provided on three-hole punched paper.

A copy of this letter, together with enclosure, has been forwarded directly to Mr. Geoffrey Young, of Newfoundland and Labrador Hydro, Mr. Thomas Johnson, the Consumer Advocate, and Mr. Danny Dumaresque.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,

Gerard M. Hayes
Senior Counsel

Enclosures

c. Geoffrey Young
Newfoundland and Labrador Hydro

Thomas Johnson
O'Dea Earle Law Offices

Danny Dumaresque



IN THE MATTER OF the *Public Utilities Act*, (the "Act"); and

IN THE MATTER OF capital expenditures and rate base of Newfoundland Power Inc.; 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 2015 Capital Budget of \$94,211,000;
- (b) approving certain capital expenditures related to multi-year projects commencing in 2015; and
- (c) fixing and determining a 2013 rate base of \$915,820,000.

**BRIEF OF ARGUMENT
OF
NEWFOUNDLAND POWER INC.**

AUGUST 8, 2014

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1 **1.0 INTRODUCTION**

2 Newfoundland Power's 2015 Capital Budget was filed with the Board of Commissioners of
3 Public Utilities (the "Board") on June 26, 2014. The \$94.2 million budget is larger than the 2013
4 Capital Budget, principally due to the requirement to purchase substation transformers to address
5 load growth, refurbish the Duffy Place facility, and commence a 2-year project to replace the
6 Company's SCADA system.

7

8 The 2015 Capital Budget Application (the "Application") seeks an Order of the Board:
9 (i) pursuant to Section 41(1) of the *Public Utilities Act*, approving proposed 2015 capital
10 expenditures totalling \$94,211,000; (ii) pursuant to Section 41(1) of the *Public Utilities Act*,
11 approving proposed 2016 capital expenditures of \$19,609,000 (iii) pursuant to Section 41(1) of
12 the *Public Utilities Act*, approving proposed 2017 capital expenditures of \$195,000 and (iii)
13 pursuant to Section 78 of the *Public Utilities Act*, fixing and determining Newfoundland Power's
14 average rate base for 2013 in the amount of \$915,820,000.

15

16 **2.0 OVERVIEW**

17 To provide context for the Board's consideration of the Application, this submission will (i)
18 review the legislative framework under which the Application is brought; (ii) address specific
19 compliance requirements; (iii) summarize the process engaged in by the Board and participants
20 in the consideration of the Application; (iv) address matters raised in the submissions of
21 intervenors; and (v) conclude with Newfoundland Power's formal submissions with respect to
22 the Application.

1 **3.0 LEGISLATIVE FRAMEWORK**

2 Section 37(1) of the *Public Utilities Act* states that a public utility shall provide service and
3 facilities that are reasonably safe and adequate and just and reasonable. Section 37(1) is a
4 cornerstone of Newfoundland Power's obligation to serve its customers.

5

6 Section 3(b) of the *Electrical Power Control Act, 1994* states that all sources and facilities for the
7 production, transmission, and distribution of power in the province should be managed and
8 operated in a manner that would result in:

9 (i) the most efficient production, transmission, and distribution of power,
10 (ii) consumers in the province having equitable access to an adequate supply of
11 power, and
12 (iii) power being delivered to customers in the province at the lowest possible cost
13 consistent with reliable service.

14

15 Section 3(b) does not create a hierarchy between these three principles; rather, each is equally
16 important in the management and operation of electrical facilities in the province.

17

18 Section 41(1) of the *Public Utilities Act* requires that Newfoundland Power submit to the Board
19 "an annual capital budget of proposed improvements and additions to its property" for the
20 Board's approval.

21

22 Section 41(3) of the *Public Utilities Act* prohibits a utility from proceeding with an improvement
23 or addition in excess of \$50,000 or a lease in excess of \$5,000 per year without the Board's prior
24 approval.

1 The principal focus of this proceeding is whether Newfoundland Power's proposal for \$94.2
2 million in capital expenditures in 2015 is reasonably required for it to meet its statutory
3 obligation to serve its approximately 257,000 customers.

4

5 Newfoundland Power submits that its 2015 Capital Budget represents the capital expenditures
6 necessary to maintain its electrical system and to continue to meet its statutory obligations under
7 Section 37(1) of the *Public Utilities Act* and Section 3(b) of the *Electrical Power Control Act*,
8 1994.

9

10 **4.0 COMPLIANCE MATTERS**

11 **4.1 Board Orders**

12 In Order No. P.U. 27 (2013) (the "2014 Capital Order"), the Board required specific information
13 to be filed with the Application. The Application complies with the requirements of the 2014
14 Capital Order.

15

16 In Order No. P.U. 35 (2003) (the "2004 Capital Order"), the Board required specific information,
17 and in particular a 5-year capital plan, to be provided with the Application. The Application
18 complies with the requirements of the 2004 Capital Order.

19

20 In Order No. P.U. 19 (2003) (the "2003 Rate Order"), the Board required that evidence relating
21 to deferred charges and a reconciliation of average rate base to invested capital be filed with the
22 Application. The Application complies with the requirements of the 2003 Rate Order.

1 In Order No. P.U. 32 (2007) (the “2008 Rate Order”), the Board approved Newfoundland
2 Power’s calculation of rate base in accordance with the Asset Rate Base Method. The
3 Application complies with the requirements of the 2008 Rate Order.

4

5 **4.2 The Capital Budget Application Guidelines**

6 In the Capital Budget Application Guidelines dated October 2007 (the “CBA Guidelines”), the
7 Board outlined certain directions on how to define and categorize capital expenditures. Although
8 compliance with the CBA Guidelines necessarily requires the exercise of a degree of judgment,
9 the Application, in Newfoundland Power’s view, complies with the CBA Guidelines while
10 remaining reasonably consistent and comparable with past filings.

11

12 Section 2 of the *2015 Capital Plan* provides a breakdown of the 2015 Capital Budget by
13 definition, classification, costing method and materiality segmentation as required in the CBA
14 Guidelines.

15

16 **5.0 PROCESS**

17 **5.1 Proceedings of Record**

18 On July 18, 2014, the Board issued 10 Requests for Information (“RFI’s”) to Newfoundland
19 Power. On the same date, Newfoundland and Labrador Hydro (“Hydro”) issued 13 RFIs, and
20 the Consumer Advocate issued 32 RFIs. On July 22, 2014, Danny Dumaresque issued 19 RFIs.

21

22 Newfoundland Power responded to the 74 RFIs on July 30, 2014.

1 No intervenor evidence was filed in the proceeding, and no intervenor requested a technical
2 conference or formal hearing of the Application.

3

4 **5.2 Intervenors' Submissions**

5 On August 5, 2014, the Consumer Advocate, Hydro and Danny Dumaresque filed written
6 submissions with the Board.

7

8 The written submission of the Consumer Advocate addressed the justification for (i) the
9 *Purchase Vehicles and Aerial Devices* project, (ii) the Property Records Management System
10 Improvements and Inventory Management Improvements portions of the *Application*
11 *Enhancements* project, and (iii) the *Pierre's Brook Plant Penstock and Surge Tank* multi-year
12 project. Hydro's written submission addressed the *Pierre's Brook Plant Penstock and Surge*
13 *Tank* multi-year project. Danny Dumaresque's written submission urged the Board "to reject all
14 capital requested by Newfoundland Power in its 2015 Capital Budget."

15

16 Following is Newfoundland Power's response to the intervenors' submissions.

17

18 **6.0 PIERRE'S BROOK HYDRO PLANT**

19 **6.1 General**

20 The Consumer Advocate and Hydro each made submissions concerning Newfoundland Power's
21 proposed \$14.3 million penstock replacement and surge tank refurbishment at the Pierre's Brook
22 Hydro Plant (the "Pierre's Brook Plant").

1 Danny Dumaresque submitted the Board should reject all “capital” requested by Newfoundland
2 Power in its 2015 Capital Budget Application. The basis of the submission was the
3 “...considerable surplus of power in the near and long-term future...”. Newfoundland Power
4 interprets Mr. Dumaresque’s submission to apply to proposed generation projects. This
5 submission will be addressed in this section of Newfoundland Power’s Brief of Argument.

6

7 Refurbishment of the Pierre’s Brook Plant is a multi-year project for 2015 and 2016. The
8 refurbishment requirements were determined by independent engineering assessment. The
9 engineering, site preparation and procurement related to this work in 2015 is estimated at
10 \$750,000. The balance of the work is scheduled to be performed in 2016. Refurbishment of the
11 Pierre’s Brook Plant is proposed to be undertaken in a planned and timely manner.

12 Reference: *Tab 1.2: Pierre’s Brook Hydro Plant, Pierre’s Brook Hydro Plant Penstock*
13 *Replacement and Surge Tank Refurbishment, June 2014*, pages 7-9; Response to
14 Request for Information NLH-NP-004.

15

16 The essential evidence before the Board justifying the proposed work on the Pierre’s Brook Plant
17 is clear. No intervenor submission challenges this evidence or seeks to add to it.

18

19 **6.2 The Evidence**

20 The uncontradicted evidence before the Board is that:

21 **1. *Independent Engineering Assessment Indicates the Proposed Work is Required.*** The
22 engineering assessment of AMEC Americas indicates that “...the entire Pierre’s Brook
23 penstock is in poor condition, ...”; “...the wood staves along the entire penstock length are
24 approaching the end of their useful life, ...”; and “the penstock should be replaced.” In
25 addition, independent engineering assessment indicates that “Overall, the coating system

1 on the surge tank...has failed..." and "...the exposed steel will continue to corrode at an
2 accelerated rate due to the proximity of the site to the Atlantic Ocean and exposure to the
3 salt laden air. If the coating is not replaced in the near future, significant material loss
4 can be expected, resulting in more costly repairs and a reduced level of reliability."

5 Reference: *Tab 1.2: Pierre's Brook Hydro Plant Penstock Replacement and Surge*
6 *Tank Refurbishment, June 2014, Appendix C: Pierre's Brook Penstock*
7 *Inspection, February 28th, 2014, AMEC Americas Limited, pages 12-13*
8 *and Appendix D: Pierre's Brook Surge Tank Inspection, March 11th, 2014,*
9 *AMEC Americas Limited, pages 2-3.*

10
11 The actual replacement of the penstock and the refurbishment of the surge tank will be
12 completed in 2016. The evidence indicates that the Pierre's Brook project cannot
13 reasonably be delayed for 1, 2 or 3 years for operational, cost and public safety reasons.

14 Reference: Response to Request for Information NLH-NP-004.
15

16 **2. Refurbishment and Continued Operation of the Pierre's Brook Plant is Estimated to**
17 **Cost 4.87¢/kWh Over a 50-Year Period.** This includes projected capital and operating
18 costs through 2064.

19 Reference: *Tab 1.2: Pierre's Brook Hydro Plant Penstock Replacement and Surge*
20 *Tank Refurbishment, June 2014, Appendix B: Feasibility Analysis, page B-*
21 *2 and Attachments A, B and C.*

22
23 **3. Refurbishment of the Pierre's Brook Plant is Consistent with Least Cost Energy**
24 **Supply.** The evidence indicates that Hydro's marginal energy costs for the Island
25 Interconnected System will increase from 5.4¢/kWh in 2018 to 7.2¢/kWh in 2022. The
26 evidence also indicates that Hydro's 2015 energy costs associated with power purchase
27

1 agreements with arms-length parties range from 7.16¢/kWh to 13.22¢/kWh.

2 Reference: Response to Request for Information NLH-NP-007 (1st Revision), pages
3 3-4. These marginal cost estimates were provided by Hydro in its
4 currently outstanding *2013 General Rate Application* and are the most
5 current information publicly available relating to Hydro's marginal cost of
6 energy following the interconnection of the Muskrat Falls project. The
7 2015 energy costs under power purchase agreements were provided by
8 Nalcor in *Exhibit 6A, Reference to the Board, Review of Two Generation*
9 *Expansion Options for the Least-Cost Supply of Power to Island*
10 *Interconnected Customers for the Period 2011-2067*. Exhibit 6A also
11 indicated that energy costs associated with these facilities tended to
12 increase over time.
13

14 The refurbishment and continued operation of the Pierre's Brook Plant will provide
15 energy at a cost that is lower than (i) Hydro's most recent estimated marginal energy cost
16 associated with the Muskrat Falls project and (ii) Hydro's forecast arms-length purchases
17 of energy. The cost of energy provided to customers will be lower as a result of the
18 refurbishment of the Pierre's Brook Plant.

19 Reference: Response to Request for Information NLH-NP-007 (1st Revision), pages
20 3-4 and response to Request for Information NLH-NP-006.
21 Newfoundland Power did not create an estimate of the cost of retiring the
22 Pierre's Brook Plant as the retirement alternative would necessarily result
23 in higher energy costs for customers.
24

25 **4. The Hydro-Newfoundland Power Inter-Utility System Planning and Reliability**
26 **Committee Confirms the Project is Consistent with Least Cost Energy Supply.** In Order
27 No. P.U. 35 (2003), the Board indicated that interaction was appropriate between
28 Newfoundland Power and Hydro to ensure and document that needless expenditure does
29 not occur with generating facilities. This routinely occurs at the Hydro-Newfoundland
30 Power Inter-Utility System Planning and Reliability Committee (the "Planning
31 Committee").

1 At the May 20th, 2014 meeting of the Planning Committee, the proposed refurbishment of
2 Pierre's Brook Plant was discussed. The minutes of this meeting indicate:

3 “[Newfoundland Power] advised that for 2015 the Pierre's Brook penstock
4 replacement, the Tors Cove unit G2 and Seal Cove G1 modernization and
5 refurbishment are the major projects proposed for 2015. The levelized cost of energy
6 production associated with these projects is 4.9 cents per kWh, 2.8 cents per kWh and
7 1.9 cents per kWh respectively.

8
9 *These costs of energy production figures compare favourably to both Holyrood
10 avoided fuel cost and the expected range on the future cost of supply.*” (emphasis
11 added)

13 At the May 20th, 2014 meeting of the Planning Committee, Hydro's representatives
14 would have been aware of the terms of the Muskrat Falls Power Purchase Agreement (the
15 “Muskrat Falls PPA”) dated November 29th, 2013. It was not indicated at the Planning
16 Committee that the Muskrat Falls PPA should have any material impact on the planned
17 refurbishment of the Pierre's Brook Plant.

18
19 The evidence indicates that Newfoundland Power considered the terms of the Muskrat
20 Falls PPA following its becoming publicly available on June 26th, 2014. The evidence
21 also indicates that Newfoundland Power has concluded that it, “...should not have a
22 material influence on decision-making associated with the proposed refurbishment of the
23 Pierre's Brook Plant for a number of reasons.”

24 Reference: Responses to Requests for Information NLH-NP-007 (1st Revision), pages
25 4-5 and NLH-NP-013, pages 1-2.

27 **5. *Continued Operation of Pierre's Brook Plant Provides Additional System Benefits.***

28 The Pierre's Brook Plant is located on the Avalon Peninsula approximately 30 km south
29 of the City of St. John's. The continued operation of the Pierre's Brook Plant will

1 provide a degree of continuing support to the Avalon Peninsula portion of the Island
2 Interconnected System, including in times of system distress.

3 Reference: Response to Request for Information NLH-NP-007 (1st Revision), page 5.
4

5 **6.3 Response to Intervenor Submissions**

6 ***Response to Consumer Advocate Submission***

7 The Consumer Advocate recommends that the Board reject the proposed refurbishment of the
8 Pierre's Brook Plant. In support of this recommendation, the Consumer Advocate indicates (i)
9 the cost for Pierre's Brook appears high, (ii) that other alternatives, including retirement, were
10 not evaluated, (iii) the analysis supporting the project does not reflect Muskrat Falls and (iv) the
11 project can be delayed.

12 Reference: Consumer Advocate's Submission, pages 6-9.

13

14 The Consumer Advocate submits that the cost of refurbishment of the Pierre's Brook Plant
15 appears high when compared to Hydro's 100 MW combustion turbine project. This is untrue.
16 The estimated cost of energy from the Pierre's Brook Plant is 4.87¢/kWh. Hydro's estimated
17 cost of energy for its 100 MW combustion turbine project is approximately 29¢/kWh, or
18 approximately 6 times the cost of energy from the refurbished Pierre's Brook Plant. This, no
19 doubt, factored into the Planning Committee's observation at its May 20th, 2014 meeting that the
20 cost of energy from a refurbished Pierre's Brook Plant compares favorably to "...the expected
21 range on the future cost of supply."

22 Reference: The 29¢/kWh cost was provided by Hydro in the response to Request for
23 Information GT-NP-NLH-006 (1st Revision) in Hydro's 100 MW Combustion
24 Turbine Generation Application.

1 The Consumer Advocate submits that relevant alternatives to refurbishment of the Pierre's Brook
2 Plant, such as retirement, were not evaluated by the Company. This is not consistent with the
3 evidence before the Board.

4

5 The evidence indicates that refurbishment of the Pierre's Brook Plant is consistent with least cost
6 supply of energy. Given this, retirement of the plant can only result in higher costs for customers
7 when the cost of replacement energy is considered. The evidence also indicates that it was for
8 this reason that Newfoundland Power did not create an estimate of the cost of retiring the
9 Pierre's Brook Plant.

10

11 The Consumer Advocate also raised other alternatives such as a "complete re-build of the plant"
12 which he asserts were not considered. However, there is no evidentiary basis indicating what
13 distinguished this alternative from those considered or why consideration of such a separate
14 alternative was required. The evidence before the Board is that Newfoundland Power did
15 consider all forecast capital and operating costs associated with the continued operations of the
16 Pierre's Brook Plant through 2064.

17

18 The Consumer Advocate submits, in effect, that the analysis supporting the refurbishment of the
19 Pierre's Brook Plant does not reflect the Muskrat Falls PPA. This is not consistent with the
20 evidence before the Board. The evidence before the Board is that on May 20th, 2014, the
21 Planning Committee which includes senior representatives from Hydro, who are knowledgeable
22 about the Muskrat Falls PPA, considered the cost of energy associated with refurbishment and
23 continued operation of the Pierre's Brook Plant. In addition, the evidence indicates
24 Newfoundland Power did consider the effects of the Muskrat Falls PPA on the proposed

1 refurbishment of the Pierre's Brook Plant once the Muskrat Falls PPA became publicly available.
2 Given that the final construction costs associated with Muskrat Falls and the associated
3 transmission facilities are currently uncertain, it is difficult to understand what value further
4 consideration of the Muskrat Falls PPA at this time could provide.

5

6 The Consumer Advocate submits that the refurbishment of the Pierre's Brook Plant can be
7 delayed. This is not consistent with the evidence before the Board. The independent
8 engineering assessment performed in the first quarter of 2014 indicated that the Pierre's Brook
9 penstock should be replaced and the surge tank should be refurbished. Newfoundland Power is
10 proposing to address these specific issues in a planned and timely manner between now and
11 2016. The evidence indicates delay in the refurbishment of the Pierre's Brook Plant is not
12 reasonable for operational, cost and public safety reasons.

13

14 ***Response to Dumaresque Submission***

15 Danny Dumaresque submits that the Board should "...reject all capital requested by
16 Newfoundland Power in its 2015 Capital Budget." In support of this submission, Mr.
17 Dumaresque asserts "...the fact that the Island will have considerable surplus of power in the near
18 and long term future, ..." .

19 Reference: Danny Dumaresque's Submission, page 1.

20

21 There is no evidence to support Mr. Dumaresque's assertion of considerable surplus of power in
22 the near and long-term future. In addition, the assertion does not address the relative cost of
23 power in either the near or long term.

1 The evidence before the Board is that refurbishment and continued operation of the Pierre's
2 Brook Plant will result in energy being available to the Island Interconnected System for 50
3 years at 4.87¢/kWh. The evidence indicates this appears lower than "...the expected range on the
4 future cost of supply". The cost of energy provided to customers will be lower as a result of the
5 refurbishment of the Pierre's Brook Plant.

6

7 ***Response to Hydro's Submission***

8 Hydro submits that the Board should delay its consideration of approval of the proposed
9 refurbishment of the Pierre's Brook Plant until "...Newfoundland Power and Hydro further
10 assess the implications of the Muskrat Falls PPA and marginal costs." In support of this
11 submission, Hydro asserts (i) that all generation projects need to be evaluated given
12 consideration to all reasonable alternatives, (ii) there is uncertainty with respect to the marginal
13 cost on the Island Interconnected System beyond 2017 and that further Hydro study of its
14 marginal cost of demand and energy is required, and (iii) Newfoundland Power has not
15 performed the necessary analysis to determine the maximum cost of energy beyond which
16 refurbishment of the Pierre's Brook Plant is not warranted.

17 Reference: Hydro's Submission, pages 1-2.

18

19 Hydro's stated belief that all generation projects need to be evaluated giving consideration to all
20 reasonable alternatives is difficult to understand in the context of the proposed refurbishment of
21 the Pierre's Brook Plant. Firstly, the refurbishment of Pierre's Brook Plant has been evaluated
22 against the reasonable alternatives. These include the most current publicly available estimates
23 of Hydro's marginal energy costs and Hydro's power purchase agreements with arms-length
24 parties, which all indicate energy costs higher than the 4.87¢/kWh associated with the

1 refurbishment and continued operation of the Pierre's Brook Plant. Secondly, the Planning
2 Committee, which includes senior representatives from both Hydro and Newfoundland Power,
3 considered the matter and decided that the cost of energy associated with refurbishment of the
4 Pierre's Brook Plant compares favorably to "...the expected range on the future cost of supply".

5

6 In Hydro's Capital Budget Applications, cost analysis of alternatives is typically very limited.
7 For example, in its 2015 Capital Budget Application alone, Hydro proposes over 15 single year
8 generation projects in excess of \$50,000. None of the project justifications included cost
9 analysis of *any* alternatives.

10 Reference: See Hydro's *2015 Capital Budget Application*. This lack of cost analysis may not
11 necessarily be inappropriate where a project is clearly consistent with least cost
12 provision of service. For example, in the development of alternatives for the
13 *Overhaul Turbine/Generator* project Hydro observes "All hydroelectric
14 generators require regularly scheduled major overhauls. To ensure the long term
15 reliability of these hydro assets, maintenance repairs and major overhauls have no
16 viable alternatives." See page D-154.
17

18 The uncontradicted evidence before the Board, including the cost analysis and evaluation of
19 reasonable alternatives, indicates that the refurbishment and continued operation of the Pierre's
20 Brook Plant is consistent with the least cost provision of energy to the Island Interconnected
21 System.

22

23 Hydro submits that uncertainty as to future marginal costs and the Muskrat PPA justify the
24 Board delaying its consideration of the proposed refurbishment of the Pierre's Brook Plant.
25 There is no evidence to support this conclusion. Firstly, the Muskrat Falls PPA is dated
26 November 29th, 2013; this is over 8 months ago. In its May 20th, 2014 meeting, the Planning
27 Committee, which includes Hydro representatives who were aware of the terms of the Muskrat
28 Falls PPA, did not indicate that further marginal cost analysis was warranted to evaluate the

1 proposed refurbishment of the Pierre's Brook Plant. Secondly, the final cost of Muskrat Falls
2 and the associated transmission facilities will not be certain for a number of years. There is no
3 indication in evidence that the accuracy of Hydro's marginal cost estimates will be materially
4 improved by further analysis at this time. Finally, the evidence before the Board does contain
5 the most recent publicly available estimates of Hydro's marginal energy costs and energy costs
6 under arms-length power purchase agreements.

7

8 Hydro submits that Newfoundland Power's failure to perform an analysis to determine the
9 maximum cost of energy beyond which the Company would not consider it prudent to proceed
10 with refurbishment of the Pierre's Brook Plant justifies delay in consideration of the proposed
11 project. There is no indication why such an analysis is warranted or useful as evidence. What
12 the evidence before the Board clearly indicates is (i) that the cost of refurbishment and continued
13 operation of the Pierre's Brook Plant over a 50-year period is 4.87¢/kWh, (ii) that this cost is
14 lower than supply alternatives available to Hydro, and (iii) that a favorable comparison to the
15 future cost of supply has been made by the Planning Committee.

16

17 **6.4 Conclusion**

18 The submissions of the Consumer Advocate, Danny Dumaresque and Hydro invite the Board to
19 reject or defer consideration of the proposed refurbishment of the Pierre's Brook Plant. None of
20 these submissions is supported by the evidence before the Board on Newfoundland Power's
21 2015 Capital Budget Application. Accordingly, the Board should disregard these submissions
22 and approve the proposed refurbishment of the Pierre's Brook Plant.

1 **7.0 OTHER PROJECTS**

2 **7.1 Purchase Vehicles and Aerial Devices**

3 The *Purchase Vehicles and Aerial Devices* project involves the addition and necessary replacement
4 of heavy fleet, passenger and off-road vehicles. For 2015, Newfoundland Power proposes
5 replacement of 6 heavy fleet vehicles, 35 passenger vehicles and 9 off-road vehicles. No addition
6 of new vehicles is proposed.

7 Reference: *2015 Capital Budget Application, Schedule B*, page 72 of 97.

8

9 The Consumer Advocate submits that the vehicle replacement practices of other utilities should be
10 considered when reviewing vehicle replacements. The Consumer Advocate's submission
11 references Order No. P.U. 42(2013), wherein the Board indicated its expectation that, commencing
12 with its 2015 Capital Budget Application, Hydro provide, as supporting documentation, information
13 on the vehicle replacement policies of similar utilities in Canada. The Consumer Advocate submits
14 that Newfoundland Power should, in future, be required to provide similar information as
15 supporting documentation for proposed vehicle replacements. The Consumer Advocate does not
16 oppose Newfoundland Power's proposed vehicle replacements for 2015.

17 Reference: Consumer Advocate's Submission, pages 4 - 5.

18

19 On July 30, 2014, in response to an RFI, Newfoundland Power indicated that it did not have any
20 current information on the criteria used by other Canadian utilities for the replacement of vehicles.
21 On August 1, 2014, Hydro filed its 2015 Capital Budget Application with the Board, which filing
22 includes information on the vehicle replacement criteria of Hydro and 3 "Other Atlantic Electric
23 Utilities." With the exception of Hydro's own criteria, which indicates consideration of condition
24 and maintenance cost, only age and mileage thresholds are indicated as vehicle replacement criteria

1 for the Atlantic electric utilities surveyed by Hydro.

2 Reference: Response to Request for Information CA-NP-008; *Newfoundland and Labrador*
3 *Hydro 2015 Capital Budget Application, Volume II, Tab 29, Replace Vehicles and*
4 *Aerial Devices, July 2014*, page 2.

5

6 The replacement of Newfoundland Power vehicles is based upon assessment of the condition of
7 individual vehicles, and not on age and mileage thresholds. Vehicles reaching the applicable age
8 and mileage thresholds are evaluated on a number of criteria, such as overall condition,
9 maintenance history and immediate repair requirements, to determine whether they have reached
10 the end of their useful service lives. This is to ensure replacement of a vehicle is the least cost
11 option. Vehicles proposed for replacement in 2015 would have met the threshold age and possibly
12 the level of usage criteria for inclusion in as many as 4 previous capital budget applications.

13 Reference: Response to Request for Information CA-NP-009.

14

15 Newfoundland Power submits that the *Purchase Vehicles and Aerial Devices* project is justified as
16 described in the Application, and should be approved by the Board. Since its vehicle replacements
17 are based on individual vehicle condition assessments, Newfoundland Power submits that the
18 information on vehicle age and mileage criteria provided in Hydro's capital budget application is
19 not relevant to the Board's consideration of Newfoundland Power's 2015 proposed vehicle
20 replacements.

21

22 **7.2 Property Records Management System Improvements**

23 The *Application Enhancements* project includes improvements to Newfoundland Power's property
24 records management system ("PRMS") at a cost of \$151,000.

25 Reference: *2015 Capital Budget Application, Schedule B*, page 79 of 97; *6.1 2015*
26 *Application Enhancements*, page 4.

1 The project will replace the current PRMS, which is a catalog database of approximately 20,000
2 paper real estate documents stored in a secured vault. The new application will provide
3 employees with direct access to electronic versions of the documents, thus eliminating the need
4 to physically retrieve and copy the original documents, and reducing the risk of loss or damage
5 of the documents.

6 Reference: *6.1 2015 Application Enhancements*, pages 4-5.
7

8 The Consumer Advocate submits that Newfoundland Power has no information as to how
9 frequently the secured vault is accessed during a day or week, and that more evidence justifying
10 the need for this project is required prior to approval.

11 Reference: Consumer Advocate's Submission, page 5.
12

13 The CBA Guidelines state that, in relation to Justifiable expenditures, a utility must show all
14 reasonable alternatives, including deferral, have been considered and that the expenditure will
15 provide tangible benefits to ratepayers, such as information showing a positive net present value
16 ("NPV") or the proposed resolution to an identified deficiency.

17 Reference: CBA Guidelines, October 2007, page 6.
18

19 The existing PRMS is used on a daily basis, and Newfoundland Power estimates that the new
20 application will enable 7 to 8 hours of weekly labour savings, in addition to maintaining the
21 integrity of the Company's property records. The Property Records Management System
22 Improvements project has a positive NPV of approximately \$17,000 over an expected application
23 life-cycle of 10 years.

24 Reference: Response to Request for Information CA-NP-027; *6.1 2015 Application*
25 *Enhancements*, page 5

1 There is no evidence in the record of this proceeding that there are reasonable alternatives to the
2 proposed replacement of Newfoundland Power's PRMS that have not been considered. This
3 item is justified as described in the Application, based upon improvements in operational
4 efficiency. As established by the positive NPV analysis, deferral of this expenditure would
5 impose greater costs on customers than proceeding with the project.

6

7 Newfoundland Power submits that the Property Records Management System Improvements
8 portion of the *Application Enhancements* project is justified as described in the Application, and
9 should be approved by the Board.

10

11 7.3 Inventory Management Improvements

12 The *Application Enhancements* project includes a number of enhancements to Newfoundland
13 Power's inventory management systems at a cost of \$394,000.

14 Reference: *2015 Capital Budget Application, Schedule B*, page 79 of 97; *6.1 2015*
15 *Application Enhancements*, page 2.

16

17 The project will improve tool management and assignment procedures using Radio Frequency
18 Identification technology to track tool location and condition, ensuring crews are able to
19 effectively perform their work. It will improve inventory management processes by
20 automatically verifying that truck inventory items are correct as trucks leave Company supply
21 yards, ensuring that crews have the right materials when they arrive at the job site. The project
22 will also improve operational efficiency and customer service by automating the dispatch of
23 customer service work orders to field crews and eliminating the manual updating of corporate
24 applications with records of completed work.

25 Reference: *6.1 2015 Application Enhancements*, pages 2-3.

1 The Consumer Advocate submits that because actual incidents of required materials and/or tools
2 not being available when required are not recorded, it is difficult to determine how often this is
3 an issue with the current system. The Consumer Advocate further submits that it is not clear
4 how the new system will alleviate the concern that materials and/or tools may be utilized
5 overnight which may be required the next morning, since verification and replacement would
6 still be required.

7 Reference: Consumer Advocate's Submission, pages 5-6.

8

9 The CBA Guidelines state that, in relation to Justifiable expenditures, a utility must show all
10 reasonable alternatives, including deferral, have been considered and that the expenditure will
11 provide tangible benefits to ratepayers, such as information showing a positive NPV or the
12 proposed resolution to an identified deficiency.

13 Reference: CBA Guidelines, October 2007, page 6.

14

15 The problem of materials and tools not always being on trucks as expected is a common
16 occurrence. It is also common that materials stocked on a truck the day before a planned job are
17 used overnight and are required to be replenished. The Inventory Management Improvements
18 project will replace what has been a largely manual process with automatic verification of truck
19 inventory. The project has a positive NPV of approximately \$47,000 over an expected application
20 life-cycle of 10 years.

21 Reference: Response to Request for Information CA-NP-028; *6.1 2015 Application*
22 *Enhancements*, pages 2-3

23

24 There is no evidence in the record of this proceeding that there are reasonable alternatives to the
25 proposed inventory management improvements that have not been considered. This item is
26 justified as described in the Application, based upon improvements in customer service and

1 operational efficiency. As established by the positive NPV analysis, deferral of this expenditure
2 would impose greater costs on customers than proceeding with the project.

3

4 Newfoundland Power submits that the Inventory Management Improvements portion of the
5 *Application Enhancements* project is justified as described in the Application, and should be
6 approved by the Board.

7

8 **8.0 CONCLUSIONS**

9 **8.1 Capital Projects**

10 ***General***

11 The projects presented in Newfoundland Power's 2015 Capital Budget Application are necessary
12 to: respond to customer growth and changes in customer requirements; replace deteriorated,
13 defective or obsolete equipment; respond to legislative and regulatory requirements; address
14 safety and environmental issues; and maintain or improve customer service levels and
15 operational efficiency gains.

16

17 With the exception of the matters raised in the written submissions of intervenors, which matters
18 are addressed above, no specific challenge has been made to the numerous engineering
19 judgments and assessments that form the basis of the capital expenditures proposed in
20 Newfoundland Power's 2015 Capital Budget.

21

22 Newfoundland Power's proposed capital expenditures for 2015, 2016 and 2017 are necessary to
23 provide service to customers that is safe and adequate and just and reasonable, and they are
24 consistent with the provision of least cost electrical service.

1 **Newfoundland Power's Capital Management Practices**

2 To provide a broad context for the Board's consideration of the Application, Newfoundland
3 Power's *2015 Capital Plan* provides overviews of (i) the Company's capital management
4 practice and how it is reflected in its annual capital budgets, (ii) the 2015 capital budget and (iii)
5 the 5-year capital outlook through 2019.

6

7 The *2015 Capital Plan* contains an overview of the Company's capital management practices.
8 Planned expenditures through 2019 will be broadly consistent on an inflation-adjusted basis with
9 annual capital expenditures during the period 2010 through 2014.

10 Reference: *2015 Capital Plan*.

11

12 **Sound Engineering Judgment**

13 The provision of service and facilities which are "reasonably safe and adequate and just and
14 reasonable" as required by Section 37(1) of the *Public Utilities Act* requires the exercise of
15 judgment. In particular, the timing, necessity and appropriateness of the investment to meet the
16 obligation to serve on a least cost basis involve sound engineering judgment.

17

18 To assist the Board in determining whether the engineering judgments reflected in the 2015
19 Capital Budget are sound, it is submitted that there was no evidence before the Board in this
20 proceeding that:

21 (i) contradicts the engineering judgments reflected in the capital projects presented in
22 the 2015 Capital Budget;
23 (ii) demonstrates reasonable alternatives that were not considered by Newfoundland
24 Power; or

(iii) demonstrates that not proceeding with a particular capital project is a preferable alternative.

3

4 *Submission*

5 Newfoundland Power submits that the 2015 Capital Budget contained in the Application
6 represents the capital expenditures required to meet its statutory obligations, including the
7 delivery of electrical power at the lowest possible cost consistent with reliable service. Pursuant
8 to Section 41 of the *Public Utilities Act*, the 2015 Capital Budget should be approved in its
9 entirety by the Board.

10

11 8.2 Rate Base

12 *General*

13 Newfoundland Power has requested that the Board fix and determine the 2013 average rate base
14 for the purpose of regulatory continuity and certainty, in the same manner as the Board has
15 exercised this regulatory supervisory power since 1999.

16 Reference: Order No. P.U. 24 (2000-2001).

17

18 Newfoundland Power's actual average rate base for 2013 is shown in Schedule D to the
19 Application.

20

21 The Board's financial consultants, Grant Thornton LLP, have reviewed the calculation of
22 Newfoundland Power's 2013 actual average rate base as shown in Schedule D to the
23 Application, and confirmed that it is accurate and in accordance with established practice and
24 Board Orders.

1 Reference: Grant Thornton LLP, Letter to the Board re *Newfoundland Power Inc. 2015*
2 *Capital Budget Application*, July 31, 2014.
3

4 ***Submission***

5 Based upon the evidence before the Board and pursuant to section 78 of the *Public Utilities Act*,
6 the Board should fix and determine Newfoundland Power's average rate base for 2013 at
7 \$915,820,000.

8

9

10 **RESPECTFULLY SUBMITTED** at St. John's, Newfoundland and Labrador, this 8th day of
11 August, 2014.

12

13



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