

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 Dumaesque.

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 Dumaesque



**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**

---

**CONTENTS**

	<b>Page</b>
1.0 INTRODUCTION .....	1
2.0 OVERVIEW .....	1
3.0 LEGISLATIVE FRAMEWORK.....	2
4.0 COMPLIANCE MATTERS .....	3
4.1 Board Orders .....	3
4.2 The Capital Budget Application Guidelines .....	4
5.0 PROCESS .....	4
5.1 Proceedings of Record .....	4
5.2 Intervenors' Submissions.....	5
6.0 PIERRE'S BROOK HYDRO PLANT .....	5
6.1 General.....	5
6.2 The Evidence .....	6
6.3 Response to Intervenor Submissions .....	10
6.4 Conclusion .....	15
7.0 OTHER PROJECTS .....	16
7.1 Purchase Vehicles and Aerial Devices .....	16
7.2 Property Records Management System Improvements .....	17
7.3 Inventory Management Improvements .....	19
8.0 CONCLUSIONS.....	21
8.1 Capital Projects .....	21
8.2 Rate Base .....	23

**1.0 INTRODUCTION**

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

The 2015 Capital Budget Application (the "Application") seeks an Order of the Board:

- (i) pursuant to Section 41(1) of the *Public Utilities Act*, approving proposed 2015 capital expenditures totalling \$94,211,000; (ii) pursuant to Section 41(1) of the *Public Utilities Act*, approving proposed 2016 capital expenditures of \$19,609,000 (iii) pursuant to Section 41(1) of the *Public Utilities Act*, approving proposed 2017 capital expenditures of \$195,000 and (iii) pursuant to Section 78 of the *Public Utilities Act*, fixing and determining Newfoundland Power's average rate base for 2013 in the amount of \$915,820,000.

**2.0 OVERVIEW**

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

### 3.0 LEGISLATIVE FRAMEWORK

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

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

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

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

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

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

5 On August 5, 2014, the Consumer Advocate, Hydro and Danny Dumaesque 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 Dumaesque'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").



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

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

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

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

## **6.2 The Evidence**

The uncontradicted evidence before the Board is that:

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

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

Reference: *Tab 1.2: Pierre’s Brook Hydro Plant Penstock Replacement and Surge Tank Refurbishment, June 2014, Appendix C: Pierre’s Brook Penstock Inspection, February 28<sup>th</sup>, 2014, AMEC Americas Limited, pages 12-13 and Appendix D: Pierre’s Brook Surge Tank Inspection, March 11<sup>th</sup>, 2014, AMEC Americas Limited, pages 2-3.*

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

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

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

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

**3. Refurbishment of the Pierre’s Brook Plant is Consistent with Least Cost Energy**

**Supply.** The evidence indicates that Hydro’s marginal energy costs for the Island Interconnected System will increase from 5.4¢/kWh in 2018 to 7.2¢/kWh in 2022. The evidence also indicates that Hydro’s 2015 energy costs associated with power purchase

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 (1<sup>st</sup> 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 (1<sup>st</sup> 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").

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

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

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

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

The evidence indicates that Newfoundland Power considered the terms of the Muskrat Falls PPA following its becoming publicly available on June 26<sup>th</sup>, 2014. The evidence also indicates that Newfoundland Power has concluded that it, "...should not have a material influence on decision-making associated with the proposed refurbishment of the Pierre's Brook Plant for a number of reasons."

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

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

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

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

Reference: Response to Request for Information NLH-NP-007 (1<sup>st</sup> Revision), page 5.

### **6.3 Response to Intervenor Submissions**

#### ***Response to Consumer Advocate Submission***

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

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

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

Reference: The 29¢/kWh cost was provided by Hydro in the response to Request for Information GT-NP-NLH-006 (1<sup>st</sup> Revision) in Hydro's 100 MW Combustion 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 20<sup>th</sup>, 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 29<sup>th</sup>, 2013; this is over 8 months ago. In its May 20<sup>th</sup>, 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.

## 7.0 OTHER PROJECTS

### 7.1 Purchase Vehicles and Aerial Devices

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

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

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

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

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

for the Atlantic electric utilities surveyed by Hydro.

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

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

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

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

## **7.2 Property Records Management System Improvements**

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

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

### 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

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

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

## **8.0 CONCLUSIONS**

### **8.1 Capital Projects**

#### ***General***

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

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

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



**Newfoundland Power's Capital Management Practices**

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

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

Reference: *2015 Capital Plan*.

**Sound Engineering Judgment**

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

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

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

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

#### ***Submission***

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

### **8.2 Rate Base**

#### ***General***

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

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

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

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

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

**Submission**

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

**RESPECTFULLY SUBMITTED** at St. John's, Newfoundland and Labrador, this 8<sup>th</sup> day of August, 2014.



**NEWFOUNDLAND POWER INC.**  
P.O. Box 8910  
55 Kenmount Road  
St. John's, Newfoundland A1B 3P6

Telephone: (709) 737-5609  
Telecopier: (709) 737-2974