NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AN ORDER OF THE BOARD

NO. P.U. 45(2014)

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 and Labrador Hydro for approval of additional capital expenditures to complete the Labrador City Voltage Upgrade pursuant to section 41 of the Act.

WHEREAS Newfoundland and Labrador Hydro ("Hydro") is a corporation continued and existing under the Hydro Corporation Act, is a public utility within the meaning of the Act, and is subject to the provisions of the EPCA; and

WHEREAS subsection 41(3) of the Act states that a public utility shall not proceed with the construction, purchase or lease of improvements or additions to its property where:

a) the cost of construction or purchase is in excess of $50,000; or

b) the cost of the lease is in excess of $5,000 in a year of the lease

without prior approval of the Board; and

WHEREAS in Order No. P.U. 42(2013) the Board approved Hydro’s 2014 Capital Budget in the amount of $97,805,300; and

WHEREAS in Order No. P.U. 16(2014) the Board approved Hydro’s proposal to proceed with the purchase and installation of 100 MW of combustion turbine generation at the Holyrood Thermal Generating Station, with cost recovery to be determined by the Board in a future Order; and

WHEREAS in Order No. P.U. 23(2014) the Board approved a supplementary amount of $580,000 to the Allowance for Unforeseen Items related to expenditures for the Holyrood Unit 3 east forced draft fan motor and the Sunnyside and Holyrood breaker overhauls and ordered that recovery of these expenditures would be addressed upon receipt of a further application from Hydro; and
WHEREAS the Board approved supplementary 2014 capital expenditures in:

(i) Order No. P.U. 29(2014) in the amount of $7,197,800 in 2014 and $1,266,400 in 2015 for the purchase and replacement of the Sunnyside T1 transformer and associated equipment, modification to the protection relay system and addition of a 230 kV breaker at the Sunnyside Terminal Station; and

(ii) Order No. P.U. 32(2014) in the amount of $1,452,500 to replace the tap changer on the T5 transformer at the Western Avalon Terminal Station;

and ordered that recovery of these expenditures would be addressed in a subsequent order of the Board following a further application by Hydro; and

WHEREAS the Board also approved supplementary 2014 capital expenditures in:

(i) Order No. P.U. 33(2014) in the amount of $3,632,200 to replace insulators on transmission lines TL-201 and TL-203;

(ii) Order No. P.U. 34(2014) in the amount of $636,700 in 2014 and $360,000 in 2015 for the replacement of the excitation transformers at the Bay d’Espoir generating station;

(iii) Order No. P.U. 36(2014) in the amount of $958,800 for the installation of additional transformer capacity at the Wabush Substation; and

(iv) Order No. P.U. 38(2014) in the amount of $320,600 to replace an air compressor at the Holyrood Thermal Generating Station; and

WHEREAS in Order No. P.U. 1(2010) the Board approved a multi-year project for the Labrador City Voltage Upgrade at an estimated cost of $9,400,300; and

WHEREAS on September 30, 2014 the Board received an application (the “Application”) from Hydro to increase the estimated expenditure for the multi-year project to $11,477,100 reflecting an increase of $199,700 in actual costs over budget for 2010 to 2013, plus additional forecast costs of $608,900 for 2014 and $1,238,200 for 2015; and

WHEREAS Hydro states the project has encountered challenges, including increased material quantities, weather conditions and contractor availability, which have resulted in escalated costs and schedule delays; and

WHEREAS the Application was circulated to Newfoundland Power Inc. (“Newfoundland Power”), the Consumer Advocate, a group of three Island Industrial customers: Corner Brook Pulp and Paper Limited, North Atlantic Refining Limited and Teck Resources Limited (the “Industrial Customer Group”), Vale Newfoundland and Labrador Limited (“Vale”), and Praxair Canada Inc. (“Praxair”); and

WHEREAS the Board, Newfoundland Power and the Consumer Advocate issued Requests for Information which were answered by Hydro on October 27, 2014; and
WHEREAS in response to PUB-NLH-1 Hydro corrected the total budget for the project to be $11,447,100; and

WHEREAS on October 31, 2014 the Consumer advocate filed a written submission; and

WHEREAS Newfoundland Power advised that, based on Hydro’s response to NP-NLH-001, it did not have any comments on the Application; and

WHEREAS on November 3, 2014 Hydro filed a reply submission to the parties’ comments on the Application; and

WHEREAS the Consumer Advocate supports the Application but raised concerns with the magnitude of the cost over-run on the materials cost estimate, the extension of the schedule for project completion and the accuracy of the budget estimate, and recommends that the Board consider a review of the capital budget process; and

WHEREAS Hydro submits that, since preparing the project estimate in 2009, it has changed its standards and contingencies for its budgeting process as well as reorganized internally to improve capital planning and execution; and

WHEREAS Hydro also submits that it is confident that the current process for budgeting and execution is improved and a review of the capital budget process is unnecessary; and

WHEREAS the Board is satisfied that the proposed additional capital expenditures in 2014 and 2015 for the Labrador City Voltage Conversion project are necessary to allow Hydro to provide service and facilities which are reasonably safe and adequate and reasonable and should be approved; and

WHEREAS the Board finds that it would not be appropriate to approve the variance in actual costs over budget for the past years 2010 to 2013; and

WHEREAS the Board is satisfied that the review of the capital budget process, as proposed by the Consumer Advocate, is not required at this time.

IT IS THEREFORE ORDERED THAT:

1. The additional capital expenditures in the amount of $608,900 for 2014 and $1,238,200 for 2015 to complete the Labrador City Voltage Conversion are approved.

2. Hydro shall pay all expenses of the Board arising from this Application.
DATED at St. John's, Newfoundland and Labrador this 20th day of November 2014.

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Andy Wells
Chair & Chief Executive Officer

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Darlene Whalen, P.Eng.
Vice-Chair

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James Oxford
Commissioner

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Cheryl Blundon
Board Secretary