
Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

IN THE MATTER OF THE
2010 CAPITAL BUDGET APPLICATION

FILED BY

NEWFOUNDLAND POWER INC.

**DECISION AND ORDER
OF THE BOARD**

ORDER No. P. U. 41(2009)

BEFORE:

**Andy Wells
Chair and Chief Executive Officer**

**Darlene Whalen, P.Eng.
Vice-Chair**

**Dwanda Newman, LL.B.
Commissioner**

**James Oxford
Commissioner**

P. U. 41(2009)

IN THE MATTER OF the *Public Utilities Act*, RSNL 1990, c. P-47 (the "*Act*");

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 its 2010 Capital Budget of \$64,679,000; and
- (b) fixing and determining its average rate base for 2008 in the amount of \$820,876,000.

BEFORE:

Andy Wells
Chair and Chief Executive Officer

Darlene Whalen, P. Eng
Vice-Chair

Dwanda Newman, LL.B
Commissioner

James Oxford
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1 **I BACKGROUND**

2
3 **1. The Application**

4
5 Newfoundland Power filed its 2010 Capital Budget Application (the “Application”) with the
6 Board of Commissioners of Public Utilities (the “Board”) on June 19, 2009. In the Application
7 Newfoundland Power requests that the Board make an Order:

- 8
9 (i) approving its 2010 Capital Budget of \$64,679,000; and
10 (ii) fixing and determining its average rate base for 2008 in the amount of
11 \$820,876,000.

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

17
18
19 **2. Board Authority**

20
21 Section 41 of the *Public Utilities Act*, RSNL 1990, c. P-47 (the “Act”) requires a public utility to
22 submit an annual capital budget of proposed improvements or additions to its property for
23 approval of the Board no later than December 15th in each year for the next calendar year. In
24 addition, the utility is also required to include an estimate of contributions toward the cost of
25 improvements or additions to its property, which the utility intends to demand from its
26 customers.

27
28 Subsection 41(3) prohibits a utility from proceeding with the construction, purchase or lease of
29 improvements or additions to its property without the prior approval of the Board where (a) the
30 cost of the construction or purchase is in excess of \$50,000, or (b) the cost of the lease is in
31 excess of \$5,000 in a year of the lease.

32
33 Section 78 gives the Board the authority to fix and determine the rate base for the service
34 provided or supplied to the public by the utility and also gives the Board the power to revise the
35 rate base. Section 78 also provides the Board with guidance on the elements that may be
36 included in the rate base.

37
38
39 **3. Application Process**

40
41 Notice of the Application, including an invitation to participate, was published on July 4, 2009 in
42 newspapers in the Province. Details of the Application and supporting documentation were
43 posted on the Board’s website.

44
45 Interventions were received from the Consumer Advocate, Mr. Thomas Johnson, and from
46 Newfoundland and Labrador Hydro. A total of 71 Requests for Information were issued to

1 Newfoundland Power by the Consumer Advocate and the Board. No intervenor evidence was
2 filed and no intervenor requested a technical conference or formal hearing of the Application.
3
4 Grant Thornton, the Board's financial consultants, were retained to review the calculations of the
5 2008 actual average rate base. Grant Thornton filed a report on September 17, 2009 and copies
6 were provided to Newfoundland Power and the intervenors.
7
8 The Consumer Advocate filed a written submission on September 17, 2009 and Newfoundland
9 Power filed its written submission on September 30, 2009. Hydro did not file any requests for
10 information or written submissions.

1 **II PROPOSED 2010 CAPITAL BUDGET**

2
3 **1. Overview**

4
5 Newfoundland Power's proposed total capital budget for 2010 is \$64,679,000. The proposed
6 expenditures by asset class are as follows:

7
8

<u>Asset Class</u>	<u>Budget (\$000s)</u>
Generation-Hydro	\$ 5,279
Generation-Thermal	150
Substations	10,218
Transmission	5,915
Distribution	31,965
General Property	1,381
Transportation	2,352
Telecommunications	379
Information Systems	3,490
Unforeseen Allowance	750
General Expenses Capitalized	<u>2,800</u>
Total	<u>\$ 64,679</u>

9
10
11 **2. Evidence and Submissions**

12
13 Newfoundland Power has provided detailed information supporting the overall capital budget for
14 2010 as well as the individual proposed expenditures. The supporting information for each of
15 the projects is comprehensive and consistent with the level of information filed in recent capital
16 budget applications and in accordance with the Board's Capital Budget Guidelines.

17
18 The proposed 2010 capital budget is 5% larger than last year's capital budget of \$61.6 million
19 approved by the Board in Order No. P. U. 27(2008). The larger overall budget for 2010 is
20 primarily attributable to the proposed expenditures in relation to three asset classes: substations,
21 transmission and distribution. The proposed expenditures in relation to substations are \$3
22 million or over 40% higher than was proposed in the 2009 capital budget. The proposed
23 expenditures in relation to transmission in 2010 are \$1.4 million or over 30% higher than
24 proposed for 2009. The proposed expenditures in relation to distribution in 2010 are \$1.7
25 million or over 5% higher than proposed distribution for 2009. These increases are offset
26 somewhat by a significant decrease in the proposed 2010 generation expenditures which were
27 higher in 2009 because of the project undertaken in 2009 to refurbish the Rocky Pond plant. No
28 similar generation project is planned for 2010.

1 The 2010 Capital Plan filed with the Application states that the material increase in the level of
2 expenditures proposed in relation to substations is largely attributable to the requirement for
3 additional system capacity to serve increased customer load, as well as the effects of inflation on
4 utility construction costs. Newfoundland Power notes that it forecasts a number of significant
5 substation projects over the next several years with at least one large power transformer purchase
6 every year through to 2014. In 2010 Newfoundland Power proposes the replacement of the
7 transformer at Deer Lake, which is to be relocated to the Mobile substation. In relation to the
8 proposed transmission expenditures, the 2010 Capital Plan states that the expenditures for the
9 years 2010 to 2014 are expected to be relatively stable, though somewhat larger than
10 expenditures for the years 2005 to 2009, primarily due to inflation and the need to rebuild aging
11 transmission lines. The 2010 Capital Plan states that distribution expenditures are relatively
12 stable having been slightly lower last year as compared to the 2005 - 2009 average of \$32.6
13 million.
14

15 The Consumer Advocate does not raise any issues in his submission as to the proposed overall
16 level of capital expenditure or the level of expenditure for a particular class of assets.
17 Newfoundland Power notes in its submission that there was no evidence filed which contradicts
18 the engineering judgements in the Application or offers other more reasonable alternatives. The
19 submission says:

20
21 *“Newfoundland Power submits that the 2010 Capital Budget contained in the Application*
22 *represents the capital expenditures required to meet its statutory obligations, including the*
23 *delivery of electrical power at the lowest possible cost consistent with reliable service.”*
24

25 In relation to the particular projects the Consumer Advocate raises concerns in relation to two
26 projects; (1) Vehicle Mobile Computing Infrastructure, and (2) Purchase Vehicles and Aerial
27 Devices.
28

29 Vehicle Mobile Computing Infrastructure

30

31 Newfoundland Power proposes an expenditure of \$272,000 for the installation of mobile
32 computing infrastructure in company vehicles. The proposed project is a pooled amount for the
33 installation of 35 ruggedized laptop computers, justified on the basis of improvements to
34 customer service and operational effectiveness as well as ensuring compliance and ongoing
35 adherence with safety and environmental standards and processes. Newfoundland Power states
36 in CA-NP-30 that each unit is projected to cost \$4,450 and is expected to be in service for five
37 years. Newfoundland Power states that over three years it plans to install a total of 80
38 ruggedized laptops with 25 to be installed in 2009 and 35 in 2010. Newfoundland Power advises
39 that the 2009 expenditures have not yet been evaluated as the units are not expected to be
40 installed until the fall of 2009.
41

42 The Consumer Advocate notes in his submission that Newfoundland Power has not produced a
43 report outlining the plan, the timeline, the anticipated benefits and costs of these expenditures
44 and argues that the information provided falls short of the proper level of justification. The
45 Consumer Advocate submits that the expenditure requires “a thorough cost analysis and

1 *demonstration that the expenditures are least cost when compared to alternative means of*
2 *achieving the regulatory objectives of "safety and environmental standards and processes...."*

3
4 Newfoundland Power notes in its submission that it has adopted a measured approach for this
5 project having extended the completion date from 2010 to 2011. Newfoundland Power states
6 that these expenditures have further potential to improve efficiency in customer operations:

7
8 *"Ensuring that employees have access to the most current policies and procedures related to*
9 *safety and the environment can be done in a more cost-effective manner using mobile computers*
10 *in Company vehicles when compared with creating, updating and distributing over 120 paper*
11 *copies of this documentation. A financial analysis of the costs and benefits associated with*
12 *making the Company's safety and environmental policies and procedures available to employees*
13 *with mobile computers in their vehicles indicated a positive net present value of \$59,087 over 5*
14 *years."*

15
16 The Board agrees with the Consumer Advocate that the Application and answers to the requests
17 for information do not provide a comprehensive and detailed explanation of the benefits
18 associated with the proposed vehicle mobile computing infrastructure. However, the Board is
19 satisfied that this expenditure should be approved based on all the available information. While
20 insufficient time has elapsed to have evaluated the benefits in relation to the approved 2009
21 expenditures, the Board notes that Newfoundland Power has extended the overall project from
22 two years to three years resulting in significantly lower expenditures for 2010. The Board will
23 approve this expenditure for 2010 on the basis of the opportunity for improvements in safety and
24 efficiency, which the Board expects will be documented as part of Newfoundland Power's
25 proposals in relation to expenditures for 2011.

26 Purchase Vehicles and Aerial Devices

27
28 Newfoundland Power proposes an expenditure of \$2,352,000 for the replacement of heavy fleet,
29 passenger and off-road vehicles. The proposed expenditure is a pooled amount for the
30 replacement of twenty-nine vehicles which were determined by Newfoundland Power to be at
31 the end of their useful service lives. Newfoundland Power states that each of these vehicles has
32 reached the established replacement threshold and has been evaluated based on a number of
33 criteria including overall condition, maintenance history and immediate repair requirements.

34
35 The replacement threshold set by Newfoundland Power for heavy fleet vehicles is ten years or
36 250,000 kilometres, and for passenger vehicles five years or 150,000 kilometres. In PUB-NP-17
37 Newfoundland Power details the evaluations that are carried out of individual vehicles.
38 Newfoundland Power states that individual evaluation of each vehicle recognizes the variety of
39 operating conditions and patterns of use.

40
41 The Consumer Advocate notes in his submission that this is a significant capital budget item and
42 that the determination that a vehicle has reached the end of its useful life is a critical
43 determination. The Consumer Advocate states that it is not clear how Newfoundland Power
44 determined that the vehicles should be replaced as the least cost option. The Consumer

1 Advocate states that a template listing the factors that are to be considered in making the end of
2 useful life determination may help to bring a further measure of objectiveness. The Consumer
3 Advocate argues that this would be of particular value in the case of heavy fleet vehicles and also
4 where vehicles are to be retired well before the mileage threshold has been reached.
5

6 Newfoundland Power's submission states that its approach to vehicle replacement is consistent
7 with current Canadian utility practice and enables least cost replacement of vehicles.
8 Newfoundland Power notes that the useful life of vehicles is often extended beyond the age or
9 level of usage threshold with 20 vehicles that had reached the threshold levels not being replaced
10 in 2009 and 31 vehicles in 2010. Newfoundland Power states that there is no evidence on the
11 record that the use of a template in the evaluation of whether a vehicle has reached the end of its
12 useful life would enhance the decision-making process.
13

14 The Board notes that the Consumer Advocate did not provide evidence that a template is used in
15 other jurisdictions and did not propose a particular template for consideration by the Board. The
16 Board also notes that there is no evidence that the existing process has led to higher or
17 unnecessary costs. The Board notes that, according to the evidence, in recent years a substantial
18 number of vehicles that have reached the threshold age or usage levels have not been replaced.
19 The Board is satisfied that the existing evaluation process for vehicle replacement is reasonable.
20

21 **3. Board Findings**

22

23 The Board has reviewed the extensive documentation and evidence on the record and finds that
24 the proposed capital purchases and construction projects in excess of \$50,000 are prudent and
25 reasonable and should be approved. The Board also finds that the proposed total capital budget
26 for 2010 is prudent and reasonable and will, therefore, approve Newfoundland Power's 2010
27 Capital Budget in the amount of \$64,679,000.

1 **III. 2008 AVERAGE RATE BASE**

2
3 The following table shows the calculation of the actual average rate base for 2008 compared with
4 2007:

	(\$000s)	
	<u>2008</u>	<u>2007</u>
Net Plant Investment		
Plant Investment	1,286,039	\$1,239,186
Accumulated Amortization	(539,654)	(516,478)
Contributions in Aid of Construction	(25,884)	(24,217)
	<hr/> 720,501	<hr/> 698,491
Additions to Rate Base		
Deferred Charges	100,723	96,850
Weather Normalization Reserve	5,910	10,516
Deferred Energy Replacement Cost	766	1,147
Cost Recovery Deferral- Depreciation	7,724	11,586
Customer Finance Programs	1,776	1,811
	<hr/> 116,899	<hr/> 121,910
Deductions from Rate Base		
2005 Unbilled Revenue	9,236	16,446
Accrued Pension Liabilities	3,142	2,943
Municipal Tax Liability	2,727	4,089
Future Income Taxes	1,184	-
Purchased Power Unit Cost Variance Reserve	895	1,650
Demand Management Incentive Account	426	-
Customer Security Deposits	785	612
	<hr/> 18,395	<hr/> 25,740
Year End Rate Base	819,005	794,661
Average Rate Base Before Allowances	806,833	777,494
Rate Base Allowances		
Materials and Supplies Allowance	4,327	4,393
Cash Working Capital Allowance	9,716	6,669
Average Rate Base at Year End	<hr/> 820,876	<hr/> \$788,556

Source: Newfoundland Power 2010 Capital Budget Application, Schedule D

1 The actual average rate base for 2008 has increased by \$32,320,000 from 2007.

2
3 Grant Thornton reviewed the calculation of the actual average rate base for 2008 and provided an
4 opinion that the calculation is accurate and in accordance with previous Board Orders. The
5 Consumer Advocate does not raise any issues as to the approval of the proposed 2008 average
6 rate base. The Board will approve all of the components of and Newfoundland Power's average
7 rate base for 2008 in the amount of \$820,876,000.

8
9
10 **IV ORDER**

11
12 **IT IS THEREFORE ORDERED THAT:**

- 13
14 **1. Newfoundland Power's capital purchases and construction projects in excess of**
15 **\$50,000, as set out in Schedule A to this Order, are approved.**
16
17 **2. The 2010 Capital Budget for improvements and additions to Newfoundland Power's**
18 **property in an amount of \$64,679,000 is approved.**
19
20 **3. The average rate base for the year ending December 31, 2008 is hereby fixed and**
21 **determined at \$820,876,000.**
22
23 **4. Unless otherwise directed by the Board, Newfoundland Power shall file an annual**
24 **report to the Board on its 2010 capital expenditures by March 1, 2011.**
25
26 **5. Unless otherwise directed by the Board, Newfoundland Power shall provide, in**
27 **conjunction with the 2011 Capital Budget Application, a status report on the 2010**
28 **capital budget expenditures showing for each project:**
29
30 **(i) the approved budget for 2010;**
31 **(ii) the expenditures prior to 2010;**
32 **(iii) the 2010 expenditures to the date of the Application;**
33 **(iv) the remaining projected expenditures for 2010;**
34 **(v) the variance between the projected total expenditures and the approved**
35 **budget; and**
36 **(vi) an explanation of the variance.**
37
38 **6. Newfoundland Power shall pay all costs and expenses of the Board incurred in**
39 **connection with the Application.**

Dated at St. John's, Newfoundland and Labrador this day 4th of November 2009.



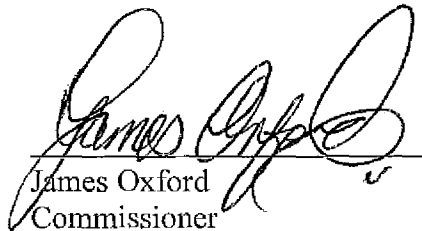
Andy Wells
Chair and Chief Executive Officer



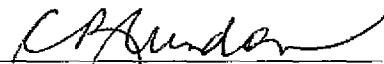
Darlene Whalen, P.Eng.
Vice-Chair



Dwanda Newman, LL.B.
Commissioner



James Oxford
Commissioner



G. Cheryl Blundon
Board Secretary

2010 CAPITAL BUDGET SUMMARY

<u>Asset Class</u>	<u>Budget (000s)</u>
1. Generation - Hydro	\$ 5,279
2. Generation - Thermal	150
3. Substations	10,218
4. Transmission	5,915
5. Distribution	31,965
6. General Property	1,381
7. Transportation	2,352
8. Telecommunications	379
9. Information Systems	3,490
10. Unforeseen Allowance	750
11. General Expenses Capitalized	2,800
Total	<u>\$ 64,679</u>

2010 CAPITAL PROJECTS (BY ASSET CLASS)

<u>Capital Projects</u>	<u>Budget (000s)</u>	<u>Description</u> ¹
1. Generation – Hydro		
Facility Rehabilitation	\$1,340	2
Lookout Brook Hydro Plant Refurbishment	2,155	4
Petty Harbour Surge Tank and Unit No. 1 Main Valve	632	6
Raise Sandy Lake Spillway to Increase Production	612	8
Seal Cove Hydro Plant Runner Replacement	540	10
<i>Total Generation – Hydro</i>	\$ 5,279	
2. Generation – Thermal		
Facility Rehabilitation Thermal	\$ 150	13
<i>Total Generation – Thermal</i>	\$ 150	
3. Substations		
Substations Refurbishment and Modernization	\$ 4,043	16
Replacements Due to In-Service Failures	2,052	18
Additions Due to Load Growth 3,650 20		
Convert 23L to 66 KV	286	22
Lookout Brook Substation Upgrades	187	24
<i>Total Substations</i>	\$ 10,218	
4. Transmission		
Transmission Line Rebuild	\$ 5,915	27
<i>Total Transmission</i>	\$ 5,915	

¹ Project descriptions can be found in Schedule B of the Application at the page indicated.

2010 CAPITAL PROJECTS (BY ASSET CLASS)

<u>Capital Projects</u>	<u>Budget (000s)</u>	<u>Description²</u>
5. Distribution		
Extensions	\$ 8,856	30
Meters	1,239	32
Services	2,447	35
Street Lighting	1,783	38
Replace Mercury Vapour Street Lights	681	41
Transformers	7,668	43
Reconstruction	3,359	45
Rebuild Distribution Lines	3,632	47
Relocate/Replace Distribution Lines for Third Parties	685	50
Distribution Reliability Initiative	447	52
St. John's Underground Distribution	550	55
Feeder Additions for Growth	465	57
Allowance for Funds Used During Construction	153	59
<i>Total Distribution</i>	\$ 31,965	
6. General Property		
Tools and Equipment	\$ 389	62
Additions to Real Property	225	65
Kenmount Road Building Roof and HVAC	542	67
System Control Centre UPS	225	69
<i>Total General Property</i>	\$ 1,381	
7. Transportation		
Purchase Vehicles and Aerial Devices	\$ 2,352	72
<i>Total Transportation</i>	\$ 2,352	

² Project descriptions can be found in Schedule B of the Application at the page indicated.

2010 CAPITAL PROJECTS (BY ASSET CLASS)

<u>Capital Projects</u>	<u>Budget (000s)</u>	<u>Description³</u>
8. Telecommunications		
Replace/Upgrade Communications Equipment	\$ 135	75
Fibre Optic Circuit Replacement	244	77
<i>Total Telecommunications</i>	\$ 379	
9. Information Systems		
Application Enhancements	\$ 937	80
System Upgrades ⁴	1,038	82
Personal Computer Infrastructure	430	84
Shared Server Infrastructure	660	87
Network Infrastructure	153	89
Vehicle Mobile Computing Infrastructure	272	91
<i>Total Information Systems</i>	\$ 3,490	
10. Unforeseen Allowance		
Allowance for Unforeseen Items	\$ 750	94
<i>Total Unforeseen Allowance</i>	\$ 750	
11. General Expenses Capitalized		
General Expenses Capitalized	\$ 2,800	96
<i>Total General Expenses Capitalized</i>	\$ 2,800	

³ Project descriptions can be found in Schedule B of the Application at the page indicated.

⁴ Includes the Microsoft Enterprise Agreement; included as a multi-year project in Schedule C of the Application.

**2010 CAPITAL PROJECTS: MULTI-YEAR
(000s)**

<u>Capital Project</u>	<u>Approved</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Microsoft Enterprise Agreement ⁵	Order No. PU 27 (2008)	\$200	\$200	\$200

⁵ The Microsoft Enterprise Agreement is a multi-year project included in Schedule C of the Application.

Newfoundland & Labrador

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