

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

**AN ORDER OF THE BOARD
NO. P. U. 42(2009)**

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act*, RSNL 1994, Chapter E-5.1 (the
3 "*EPCA*") and the *Public Utilities Act*, RSNL 1990,
4 Chapter P-47 (the "*Act*") as amended;

5
6 **AND**
7

8 **IN THE MATTER OF** an Application
9 by Newfoundland and Labrador Hydro
10 ("Hydro") to fix and determine the revised
11 average rate base for each of 2005, 2006
12 and 2007 (the "Application"), pursuant to
13 Section 78 of the *Act*.

14
15 **WHEREAS** Hydro is a corporation continued and existing under the *Hydro Corporation*
16 *Act*, is a public utility within the meaning of the *Act*, and is subject to the provisions of
17 the *EPCA*; and
18

19 **WHEREAS** on May 28, 2009 Hydro filed an application with the Board of
20 Commissioners of Public Utilities (the "Board") to fix and determine the revised average
21 rate base for the years 2005, 2006 and 2007 as a result of errors and omissions by Hydro
22 in the original average rate base calculations filed with and, in the case of 2005 and 2006,
23 approved by the Board; and
24

25 **WHEREAS** the 2005 average rate base was fixed and determined in the amount of
26 \$1,473,759,000 in Order No. P.U. 35 (2006) and the 2006 average rate base was fixed
27 and determined in the amount of \$1,472,184,000 in Order No. P. U. 30(2007); and
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29 **WHEREAS** the 2007 average rate base of \$1,484,545,000 filed by Hydro as part of its
30 2009 Capital Budget Application was not fixed and determined by the Board in the
31 Capital Budget Order [Order No. P.U. 36(2008)] due to Hydro's treatment of a prior
32 period error in the calculation of 2006 average deferred charges and also because of the
33 Board's decision to deny an application by Hydro for approval to defer \$2,043,000 of
34 major extraordinary repairs in 2007 associated with repairs to a turbine at the Holyrood
35 Thermal Generating Station, both of which would affect the calculation of the average
36 rate base for both 2006 and 2007; and
37

38 **WHEREAS** in Order No. P.U. 36(2008) the Board advised Hydro that it may file an
39 application with supporting calculations requesting that the Board fix and determine a
40 revised average rate base for both 2006 and 2007; and

1 **WHEREAS** Hydro did not include in the average rate base for 2005 and 2006 the
2 deferred costs of studies that had been approved by the Board in Order No. P.U. 14(2004)
3 and treated according to the terms of a settlement agreement filed as part of Hydro's 2008
4 General Rate Application and approved by the Board in Order No. P.U. 8(2007); and
5

6 **WHEREAS** Hydro subsequently identified that the 2005 average rate base also omitted,
7 in error, certain deferred charges balances (\$3,858,000 at December 31, 2005) relating to
8 the Asbestos Abatement Plan, as approved in Order No. P. U. 2(2005), and therefore the
9 2005 average rate base should be adjusted to \$1,475,728,000 (an increase of \$1,196,000)
10 to include this item; and
11

12 **WHEREAS** as part of the Application Hydro filed revised calculations for the average
13 rate base as of December 31 in each of the years 2005, 2006 and 2007, requesting that the
14 Board fix and determine, pursuant to section 78 of the *Act*, the revised average rate base
15 for 2005 in the amount of \$1,475,728,000, the revised average rate base for 2006 in the
16 amount of \$1,478,649,000, and the revised average rate base for 2007 in the amount of
17 \$1,483,524,000; and
18

19 **WHEREAS** the Board's financial consultants Grant Thornton LLP reviewed the
20 calculations and supporting documentation filed as part of the Application and concluded
21 that the 2005, 2006 and 2007 average rate base included in the Application is accurate
22 and in accordance with established Board orders; and
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24 **WHEREAS** the Board has considered Hydro's Application and is satisfied that the
25 calculations and revised average rate base for each of 2005, 2006 and 2007 accurately
26 correct the errors and omissions in previous filings by Hydro and should be approved;
27 and
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29 **WHEREAS** the Board is concerned that a number of significant errors and omissions in
30 the calculation of rate base were made by Hydro over a number of years without being
31 identified and remedied by Hydro's internal controls and will therefore require Hydro to
32 identify, implement and report on improvements to its internal controls intended to
33 reduce the likelihood of such errors and omissions in the future.
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35 **IT IS THEREFORE ORDERED THAT:**
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- 37 1. Hydro's revised average rate base for 2005 is fixed and determined in the amount
38 of \$1,475,728,000.
- 39 2. Hydro's revised average rate base for 2006 is fixed and determined in the amount
40 of \$1,478,649,000.
- 41 3. Hydro's revised average rate base for 2007 is fixed and determined in the amount
42 of \$1,483,524,000.
- 43 4. Hydro shall file a report with the Board no later than March 31, 2010, setting out
44 the amendments to its internal audit measures and any other internal controls
45 which will be implemented to reduce the possibility of future errors and omissions
46 in the calculation of rate base.
- 47 5. Hydro shall pay all expenses of the Board arising from this Application.

DATED at St. John's, Newfoundland and Labrador, this 16th day of November 2009.

Andy Wells
Chair & Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

Dwanda Newman, LL.B
Commissioner

Cheryl Blundon
Board Secretary