

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

AN ORDER OF THE BOARD

NO. P. U. 44(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, and
5 regulations thereunder;

6
7 **AND**

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9 **IN THE MATTER OF** an application by
10 Newfoundland & Labrador Hydro (“Hydro”)
11 for approval of the deferral of expenses associated
12 with the repair of the Unit 1 Turbine at the
13 Holyrood Thermal Generating Station as a
14 Major Extraordinary Repair.

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18 **Application**

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21 On September 9, 2009 Hydro applied for an Order of the Board approving its proposal to treat
22 2009 costs of repairs to the Unit 1 Turbine at the Holyrood Thermal Generating Station
23 conducted in 2009 as a Major Extraordinary Repair and to amortize these costs over a period of
24 five years (the “Application”).

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26 On September 15, 2009 the Board sent information requests to Hydro in relation to the
27 Application. Hydro responded to these information requests on September 30, 2009.

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29 No submission in relation to the Application was received from the Consumer Advocate,
30 Newfoundland Power, or the Industrial Customers, all having been copied with the Application
31 and subsequent correspondence.

1 **Decision**
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4 In its Application Hydro stated that on June 2, 2009, an inspection of the Unit 1 Turbine at the
5 Holyrood Thermal Generating Station showed damage to the nozzle block component of the
6 turbine. The nozzle block is the component that distributes the highest pressure steam into the
7 first stage turbine and is the most stressed region of the turbine assembly. General Electric
8 Energy Services Canada was consulted and its recommendation was that the unit not be operated
9 until the nozzle block was repaired. Repair work commenced in July 2009 and was completed at
10 the end of August 2009. The repair work on the unit also included repairs to stage blading and
11 diaphragms that were necessary to ensure unit efficiency, capacity and reliability. The total cost
12 of the Unit 1 Turbine repair, including General Electric Energy Services Canada, Service and
13 Plant service costs, are estimated to be \$1,300,000.
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15 Hydro has applied to treat this repair as a Major Extraordinary Repair and to amortize the total
16 cost of repairs plus financing of \$1,558,000 over a five-year period. Hydro asks that the costs be
17 treated as a Major Extraordinary Repair on the basis that the repair does not result in the
18 replacement or betterment, is not typical of the normal repair expenditures, and the cost exceeds
19 \$500,000. Hydro states that these costs would have a significant adverse effect on Hydro's
20 earnings were they to be expensed in the current year.
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22 In Board Order No. P.U. 31(2008), the Board stated:
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24 *“Generally Accepted Accounting Principles (GAAP) would require that these operating costs be*
25 *recognized as expenses in the fiscal year in which they are incurred unless an alternative*
26 *treatment is approved by the Board. The Board has in the past acknowledged that it is*
27 *appropriate in certain circumstances to defer certain major extraordinary repairs. The Board*
28 *has accepted that it is appropriate to consider whether an expense is an extraordinary repair*
29 *cost if it meets the minimum threshold of \$500,000 and would cause a rate shock or a shock in*
30 *Hydro's earnings that is considered unreasonably high. This approach was accepted by the*
31 *Board based on a Peat Marwick report completed for Hydro in July of 1991, “Accounting for*
32 *Major Plant Replacement and Repairs”.*
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34 *Based on this accepted approach the Board will, in appropriate circumstances, allow the*
35 *deferral of costs incurred in relation to a Major Extraordinary Repair. This determination*
36 *depends on the circumstances and will not necessarily be made in every case of a non-capital*
37 *repair costing more than \$500,000. The Board notes that the Holyrood Thermal Generating*
38 *Station is an aging plant and as such more of these types of unexpected repairs may be seen in*
39 *the future. The Board does not believe that it is appropriate to routinely consider each non-*
40 *capital expense which is greater than \$500,000 as a Major Extraordinary repair to be deferred.*
41 *Each case has to be brought to the Board for consideration based on the circumstances. “*
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43 The circumstances in the within matter are similar to those considered in Board Order P.U. 31
44 (2008). In that Order, the Board found that Hydro had not shown that expensing the costs of the
45 Unit 2 Turbine repair would cause a shock to its earnings.

1 Hydro argues that the Unit 1 Turbine repair should be treated as a major extraordinary repair on
2 the basis that expensing these repairs in the year incurred would have a significant adverse affect
3 on Hydro's earnings. Hydro states in PUB-NLH-4 that its net income will be 15% less than
4 otherwise budgeted if these repairs are expensed. Hydro states that it "*considers a single 15%*
5 *adverse impact to be a significant effect - a shock - on its net earnings*". The Board does not
6 agree. A significant impact is not necessarily the same as a shock to earnings which is
7 considered unreasonably high.

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9 The Board believes that the relief sought by Hydro is a unique regulatory treatment which should
10 be reserved for unusual circumstances. As the Board indicated in P.U. 31(2008) the Holyrood
11 Thermal Generating Station is an aging plant and as such more of these types of repairs may be
12 seen in the future. Hydro reports in PUB-NLH-2 that there were major unbudgeted non-capital
13 repairs at Holyrood for each of 2006, 2007, and 2008 in addition to this 2009 repair.

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15 Hydro suggests that because the cost of the repair is more than two and a half times the minimum
16 threshold of \$500,000, the repair is well within the financial bounds and purposes for which this
17 accounting treatment was implemented. The Board does not accept this approach. Once the
18 \$500,000 minimum is reached the amount of the repair is relevant only to the extent it causes a
19 rate shock or a shock to Hydro's earnings that is considered unreasonably high. Hydro has failed
20 to show that expensing these repairs would cause such a shock. While the expenses of repairs to
21 Unit 1 Turbine are clearly of a non-capital nature greater than \$500,000 Hydro has not shown
22 that the circumstances are extraordinary justifying treatment as a major extraordinary repair.

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24 In the circumstances the Board finds that treating the 2009 costs of the repairs to the Unit 1
25 Turbine as a Major Extraordinary Repair with deferral of the costs over five years is not
26 reasonable and prudent in the circumstances.

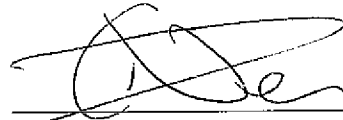
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29 **IT IS THEREFORE ORDERED THAT:**

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32 1. The Application is denied.
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34 2. Hydro shall pay the expenses of the Board arising from this Application.

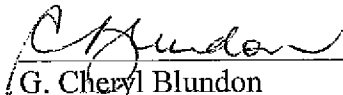
DATED at St. John's, Newfoundland and Labrador, this 14th day of December 2009.



Andy Wells
Chair & Chief Executive Officer



Dwanda Newman, LLB
Commissioner



G. Cheryl Blundon
Board Secretary