
Newfoundland & Labrador
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

IN THE MATTER OF THE
2024 CAPITAL BUDGET APPLICATION

FILED BY
NEWFOUNDLAND POWER INC.

Reasons for Decision
ORDER NO. P.U. 2(2024)

BEFORE:

Dwanda Newman, LL.B.
Vice-Chair

John O'Brien, FCPA, FCA, CISA
Commissioner

Christopher Pike, LL.B., FCIP
Commissioner

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

REASONS FOR DECISION

ORDER NO. P.U. 2(2024)

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 Power Inc. for an Order pursuant to sections 41 and 78 of the **Act**: (a) approving its 2024 Capital Budget; (b) providing approval to proceed with the construction, purchase or lease of improvements or additions; and (c) fixing and determining its average rate base for 2022.

BEFORE:

Dwanda Newman, LL.B.
Vice-Chair

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Commissioner

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1 **1. DECISION SUMMARY**

2

3 On January 18, 2024 the Board issued Order No. P.U. 2(2024) relating to Newfoundland Power
4 Inc.'s ("Newfoundland Power") 2024 Capital Budget. The Board did not accept the proposed
5 capital budget, in the amount of \$115,252,000, and instead approved Newfoundland Power's
6 2024 Capital Budget, in the amount of \$114,252,000, including expenditures of:

- 7
- 8 • \$88,817,000 which were over \$750,000 and required Board approval;
 - 9 • \$10,514,000 which were under \$750,000 and did not require Board approval; and
 - \$14,921,000 previously approved by the Board.

10

11 The Board reduced Newfoundland Power's proposed 2024 Capital Budget by \$1,000,000 to
12 reflect reductions in the proposed expenditures for three programs on the basis that the
13 evidence presented did not support approval of the full amount proposed by Newfoundland
14 Power.¹

15

16 The Board also fixed and determined Newfoundland Power's 2022 average rate base in the
17 amount of \$1,230,434,000.

18

19 Order No. P.U. 2(2024) was issued without reasons. These are the Board's Reasons for Decision.

20

21 **2. BACKGROUND**

22

23 Section 41 of the **Act** requires a public utility to submit an annual capital budget of proposed
24 improvements or additions to its property for approval of the Board no later than December 15th
25 in each year for the next calendar year. A utility must also include an estimate of contributions
26 toward the cost of improvements or additions to its property which it intends to demand from
27 its customers.

28

29 Subsection 41(3) of the **Act** prohibits a utility from proceeding with the construction, purchase
30 or lease of improvements or additions to its property without the prior approval of the Board
31 where the cost of the construction or purchase or lease is in excess of the amount prescribed in
32 the regulations. Section 3 of the **Public Utilities Regulations**, NLR 40/23, sets the threshold for
33 Board approval at \$750,000. Before this regulation was promulgated in 2023, capital
34 expenditures in excess of \$50,000 required Board approval.

35

36 Section 78 of the **Act** gives the Board the authority to fix and determine the rate base for the
37 service provided or supplied by a utility and gives the Board the power to revise the rate base.
38 Section 78 also guides the Board on the elements included in a utility's rate base.

¹ The reductions included \$500,000 for the Extensions Program, \$300,000 for the Relocate/Replace Distribution Lines for Third Parties program and \$200,000 for the New Street Lighting Program.

1 The Board’s Capital Budget Application Guidelines (Provisional), January 2022 (the “Guidelines”)
2 set out the process and schedule for capital budget applications.² The Board conducted this
3 proceeding pursuant to the Guidelines.

4

5 **3. APPLICATION**

6

7 Newfoundland Power filed its 2024 Capital Budget Application (the “Application”) with the Board
8 on June 22, 2023. In the Application Newfoundland Power requested that the Board make an
9 order:

- 10 (a) approving its proposed construction and purchase of improvements or additions to its
11 property to be completed in 2024 in the amount of \$115,252,000 comprising:
12 i. single-year project and program expenditures in excess of \$750,000 in the amount
13 of \$84,583,000;
14 ii. single-year project and program expenditures \$750,000 and under in the amount of
15 \$10,514,000;
16 iii. multi-year programs with 2024 expenditures of \$5,234,000; and
17 iv. previously approved multi-year projects with 2024 expenditures of \$14,921,000;
18 (b) approving its proposed multi-year construction and purchase of improvements or
19 additions to its property for future years in the amount of \$19,414,000 in 2025 and
20 \$297,000 in 2026; and
21 (c) fixing and determining its average rate base for 2022 in the amount of \$1,230,434,000.

22

23 **3.1. Process**

24

25 Notice of the Application, including an invitation to participate, was published on July 8, 2023.
26 Details of the Application and supporting documents were posted on the Board’s website.

27

28 Newfoundland and Labrador Hydro (“Hydro”) and the Consumer Advocate, Dennis Browne, KC
29 (the “Consumer Advocate”) intervened (the “Intervenors”) in the Application.

30

31 On July 26, 2023 Newfoundland Power provided an overview of the Application in a presentation
32 to Board staff and the Intervenors. This process afforded participants with an opportunity to ask
33 questions and raise areas of concern with respect to the Application.

34

35 On August 30, 2023 Grant Thornton LLP, the Board’s financial consultant, filed a report on its
36 review of the calculation of the 2022 average rate base. The Board provided this report to the
37 parties.

38

39 The Board, Hydro, and the Consumer Advocate issued 239 Requests for Information (“RFIs”) to
40 Newfoundland Power. Newfoundland Power responded to these requests on August 31, 2023.

² The Board established Capital Budget Application Guidelines in 2007. The provisional guidelines established in 2022 are under review in a separate Board process.

1 On September 14, 2023 the Board convened a technical conference. Board staff and
2 representatives of the Intervenor attended to ask questions and to discuss areas of concern on
3 the Application with Newfoundland Power's representatives.

4

5 On September 21, 2023 the Consumer Advocate submitted a report from its consultant, Midgard
6 Consulting Incorporated with respect to utility capital budgets and regulatory approvals. On
7 September 26, 2023 Newfoundland Power issued 13 RFIs related to Midgard's report. The
8 Consumer Advocate responded to these RFIs on October 11, 2023.

9

10 On September 26, 2023 the Board, Hydro, and the Consumer Advocate issued an additional 69
11 RFIs related to the technical conference and the Application. Newfoundland Power responded to
12 these requests on October 11, 2023.

13

14 On October 23, 2023 the Consumer Advocate filed a request for an oral hearing. The Board
15 denied this request on November 7, 2023. The Board's correspondence outlining the reason for
16 denial has been filed on the record of this proceeding.

17

18 Hydro and the Consumer Advocate filed submissions respecting the Application on November
19 23, 2023 and November 27, 2023 respectively. Newfoundland Power filed its reply submission
20 on December 4, 2023.

21

22 On January 18, 2024 the Board issued Order No. P.U. 2(2024). These are the Board's Reasons for
23 Decision.

24

25 **3.2. Submissions**

26

27 Hydro did not object to the capital expenditures proposed in the Application.

28

29 The Consumer Advocate stated that the Application comes at a time of massive spending on the
30 province's electricity system and submitted that Newfoundland Power could reasonably reduce
31 its proposed capital budget without a detrimental impact on reliability. The Consumer Advocate
32 recommended reducing the proposed expenditures for several programs for which
33 Newfoundland Power uses historical averages to establish budgets.

34

35 Newfoundland Power stated that the Consumer Advocate did not challenge the need or
36 justification for any of the project and program expenditures it proposed and responded to the
37 issues raised by the Consumer Advocate. Newfoundland Power said it has justified the proposed
38 capital projects and programs with uncontradicted sound engineering judgment and includes
39 consideration of all reasonable alternative approaches for the work proposed.

1 4. BOARD DECISION

2
3 In considering the Application, the Board must assess whether approval of the proposals is
4 consistent with the statutory obligations imposed on the Board and Newfoundland Power.³ In
5 particular section 3(b) of the **EPCA** requires a public utility to manage and operate its facilities for
6 the efficient production, transmission and distribution of power in a manner that would result in
7 consumers in the province having equitable access to an adequate supply of power at the lowest
8 possible cost, in an environmentally responsible manner, consistent with reliable service.⁴ In
9 making its determinations, the Board balances the interests of customers and the utility to ensure
10 reasonable levels of capital spending to provide for least-cost, environmentally responsible,
11 reliable and safe service. The Guidelines state:

12
13 The Board considers the interests of both customers and utilities in determining whether
14 proposed capital expenditures should be approved. Appropriate capital spending is in the
15 interest of both customers and utilities as customers benefit from a utility which is well
16 positioned to provide safe, reliable and adequate service and utilities benefit when the
17 rates to be paid by customers are reasonable and just. Cost, performance and risk are
18 among the factors considered by the Board in determining whether capital expenditures
19 are appropriate and necessary to ensure the delivery of power to customers at the lowest
20 possible cost consistent with reliable service.⁵

21
22 The burden of proof is on the utility to provide sufficient evidence to justify its capital budget
23 application proposals. In accordance with the legislation, regulations and Guidelines,
24 Newfoundland Power included information relating to proposed expenditures and, for a number
25 of projects, provided additional studies and reports. The Application also included specific
26 information required to be filed in compliance with previous Board Orders, including a status
27 report on 2023 capital expenditures, a five-year capital plan, as well as a reconciliation of average
28 rate base to invested capital. As required by the Guidelines the Application included a prioritized
29 list of all projects and programs organized by investment classification.

30
31 Newfoundland Power proposes a 2024 Capital Budget, in the amount of \$115,252,000, which
32 reflects the following expenditures by investment classification.⁶

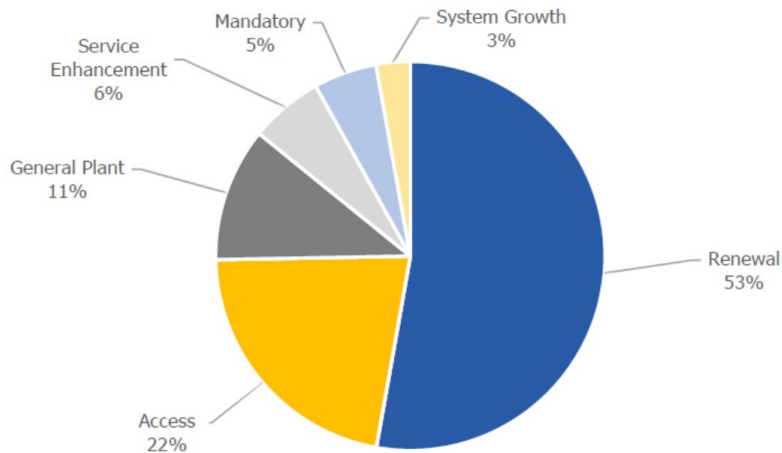
³ Sections 37 and 54 of the **Act** and sections 3 and 4 of the **EPCA**.

⁴ Legislative changes in 2023 added environmental considerations to the Board's mandate.

⁵ Guidelines, pages 1-2.

⁶ Application, 2024 Capital Budget Overview, page 16, Figure 7.

2024 Capital Budget by Investment Classification



1 The Board has reviewed the Application and supporting materials, the responses to the RFIs and
 2 the parties' submissions. The Board's determinations in relation to the proposed capital
 3 expenditures, Newfoundland Power's 2024 Capital Budget, the 2022 average rate base and the
 4 issues raised by the Consumer Advocate follow.

5

6 **4.1. Proposed Capital Expenditures**

7

8 This is the first capital budget application filed by Newfoundland Power since the amendments
 9 to the legislation to increase the monetary threshold for expenditures requiring the prior
 10 approval of the Board to \$750,000. The Application set out 33 proposed projects and programs
 11 over \$750,000 which require the approval of the Board.⁷ The Application also proposed 22
 12 programs and projects with expenditures less than \$750,000 which do not require the approval
 13 of the Board and expenditures for five projects the Board has previously approved.⁸

14

15 The evidence provided in support of the proposed expenditures in excess of \$750,000 includes
 16 program or project descriptions, asset condition information, alternatives, justifications, risk
 17 assessments and costing methodologies. Newfoundland Power provided significant additional
 18 information in relation to the proposed projects and programs in its responses to the RFIs filed
 19 in this proceeding. The evidence also includes a description of the projects and programs with
 20 expenditures less than \$750,000.

21

22 The Board's findings with respect to the proposed Mandatory, Access, General Plant, Renewal,
 23 Service Enhancement, and System Growth expenditures are discussed below.

⁷ The proposed expenditures are \$89,817,000 in 2024, \$19,414,000 in 2025 and \$297,000 in 2026.

⁸ The proposed 2024 expenditures less than \$750,000 are \$10,514,000, and proposed 2024 expenditures which were previously approved are \$14,921,000.

1 **4.1.1. Mandatory**

2

3 Mandatory investments are those expenditures associated with work prescribed by a governing
4 body such as the provincial government, the federal government or the Board. The 2024
5 mandatory expenditures of \$6,054,000 account for approximately 5% of the proposed 2024
6 Capital Budget, compared to 4% of Newfoundland Power's 2023 Capital Budget.

7

8 There are two mandatory projects with expenditures over \$750,000 requiring Board approval:

- 9
- 10 • Expenditures of \$4,500,000 are proposed for General Expenses Capitalized which relate
to capital expenditures charged in accordance with Board approved methodology.
 - 11 • Expenditures of \$750,000 for the Allowance for Unforeseen Items for unplanned
12 expenditures made in accordance with the Board's Capital Budget Guidelines.

13

14 There are two mandatory projects with expenditures under \$750,000 which do not require the
15 approval of the Board, with total expenditures of \$804,000.⁹ There are no mandatory
16 expenditures for programs or projects previously approved by the Board.

17

18 The Intervenors did not oppose the proposed mandatory expenditures. The Board finds that the
19 proposed mandatory expenditures are consistent with Board guidelines and orders and should
20 be approved.

21

22 **4.1.2. Access**

23

24 Access investments are those required to meet Newfoundland Power's obligation to provide
25 customers with access to electricity services. The 2024 access expenditures of \$25,248,000
26 account for approximately 22% of Newfoundland Power's proposed 2024 Capital Budget,
27 compared to 25% of Newfoundland Power's 2023 Capital Budget.

28

29 There are five access programs with expenditures over \$750,000 requiring Board approval. While
30 the intervenors did not oppose the approval of these programs, the Consumer Advocate
31 recommended that the expenditures for these programs be reduced to 2023 levels. The
32 Consumer Advocate submitted that the proposed expenditures reflect large increases from 2023
33 to 2024 and Newfoundland Power did not provide evidence showing the need for increases.

34

35 The Board has reviewed the evidence provided with respect to the expenditures proposed for
36 each of the five access programs and is satisfied that the proposed expenditures should be
37 reduced for the following three programs.

- 38
- 39 • Expenditures of \$12,140,000 are proposed for the Extensions program, to construct
40 primary and secondary distribution lines to connect new customers to the electrical
41 system. The proposed expenditures are based on a historical average adjusted for
inflation as set out below.

⁹ Application, Schedule C.

Extensions Program Cost per Customer						
Year	2019	2020	2021	2022	2023F	2024F
Total (000s)	\$13,379	\$10,561	\$12,427	\$12,489	\$12,218	\$12,140
Adjusted Costs (000s) ¹	\$15,956	\$12,394	\$13,798	\$13,161	\$12,218	-
New Customers	2,379	2,062	2,448	2,646	2,205	2,053
Cost/Customer ¹	\$6,707	\$6,011	\$5,636	\$4,974	\$5,541	\$5,913

¹ 2023 dollars.

- 1 The Consumer Advocate recommended that the expenditures be reduced to \$11,376,000
2 based on the 2023F cost per customer and the 2024F number of new customers. The
3 Board notes that the 2019 adjusted costs of \$15,956,000 and cost per customer of \$6,707
4 were significantly higher than costs in the other years. The next highest amount of
5 adjusted costs was in 2021 at \$13,798,000. Newfoundland Power acknowledged that the
6 2019 expenditures reflect several large commercial customer connections with higher-
7 than average costs.¹⁰ Newfoundland Power explained that the downward trend in costs
8 per customer from 2019 to 2022 may be attributed to new customer connections in
9 previously constructed residential developments in prior years.¹¹ The Board also notes
10 that the annual expenditures under the Extensions program are expected to decrease due
11 to a forecast decline in new customer connections.¹² The Board believes that the historic
12 average should be adjusted to normalize for the 2019 outlier and account for the
13 downward trend. The Board finds that the proposed 2024 expenditures should be
14 reduced by \$500,000. The Board is satisfied that the 2024 Extensions expenditures should
15 be approved in the amount of \$11,640,000.
- 16 • Expenditures of \$4,066,000 are proposed for the Relocate/Replace Distribution Lines for
17 Third Parties program to accommodate requests from governments, telecommunications
18 companies and other customers. The proposed expenditures are based on a historical
19 average adjusted for inflation as set out below.¹³

Relocate/Replace Distribution Lines for Third Parties Program Historical Expenditures (000s)					
Year	2019	2020	2021	2022	2023F
Total	\$5,192	\$2,745	\$3,060	\$3,055	\$3,803
Adjusted Costs ¹	\$6,189	\$3,219	\$3,407	\$3,227	\$3,803

¹ 2023 dollars

- 20 The Consumer Advocate recommended that the expenditures be reduced to \$3,803,000
21 to reflect the 2023F costs. The Board notes that the expenditures in 2019 of \$6,189,000
22 were significantly higher than costs in the other years. The next highest amount is

¹⁰ CA-NP-199.

¹¹ CA-NP-083.

¹² Application, Schedule B page 28.

¹³ Application, Schedule B, page 39.

1 \$3,803,000 in 2023F. Newfoundland Power acknowledged that increased requests from
 2 its joint use partners, Bell Aliant and Rogers Communications accounted for higher 2019
 3 expenditures in this program.¹⁴ The Board believes that the historic average should be
 4 adjusted to normalize for this outlier. The Board finds that the proposed 2024
 5 expenditures should be reduced by \$300,000. The Board is satisfied that the 2024
 6 Relocate/Replace Distribution Lines for Third Parties Program expenditures should be
 7 approved in the amount of \$3,766,000.

- 8 • Expenditures of \$2,629,000 are proposed for the New Street Lighting program to respond
 9 to customer requests for new street lighting service. The proposed expenditures are
 10 based on a historical average adjusted for inflation as set out below.¹⁵

New Street Lighting Program Historical Expenditures (000s)					
Year	2019	2020	2021	2022	2023F
Total	\$2,678	\$2,608	\$1,494	\$2,209	\$2,618
Adjusted Costs ¹	\$3,194	\$3,063	\$1,653	\$2,312	\$2,618

¹ 2023 dollars.

11 The Consumer Advocate recommended that the expenditures be reduced to \$2,618,000
 12 to reflect the 2023F expenditures. The Board notes that the annual expenditures were
 13 much higher in 2019 and 2020 than in subsequent years. The Board believes that the
 14 expenditures over the three years 2021 to 2023F may be more reflective of expected 2024
 15 expenditures and notes that a three-year average was used for Replacement Street
 16 Lighting program. The Board believes that the historical average should be adjusted to
 17 normalize for the downward trend. The Board finds that the proposed 2024 expenditures
 18 should be reduced by \$200,000. The Board is satisfied that the 2024 expenditures for New
 19 Street Lighting should be approved in the amount of \$2,429,000.

20
 21 The Board has reviewed the evidence provided with respect to the expenditures proposed for
 22 the other two access programs and is not satisfied that the proposed expenditures should be
 23 reduced.

- 24 • Expenditures of \$2,847,000 are proposed for the New Services program to install service
 25 wires to connect new customers to the distribution system. The Consumer Advocate
 26 recommended that the expenditures be reduced to \$2,714,000 to reflect the 2023F cost
 27 per customer and the 2024F number of new customers. The Board notes that there is a
 28 fairly consistent level of expenditures on a cost per customer basis over the five-year
 29 period, ranging from a low of \$1,297 in 2020 to a high of \$1,407 in 2022. In addition there
 30 are no outliers in the annual adjusted costs. The Board is satisfied that the use of the five-
 31 year average is reasonable to estimate the 2024 expenditures and a reduction in the New
 32 Services expenditures is not appropriate.

¹⁴ CA-NP-078.

¹⁵ Application, Schedule B, page 52.

- 1 • Expenditures of \$3,264,000 are proposed for the New Transformers program to serve
 2 customer growth. The Consumer Advocate submitted that the Board should set the 2024
 3 budget at \$2,967,000 based on the 2023F expenditures. The Board notes that the
 4 adjusted costs for this program are fairly consistent ranging from \$3,119,000 in 2020 to
 5 3,486,000 in 2022.¹⁶ This Board is satisfied that the use of the five-year average to
 6 estimate the 2024 expenditures is reasonable and a reduction in the New Transformers
 7 expenditures is not appropriate.

8
 9 There is one access program with expenditures under \$750,000 which does not require the
 10 approval of the Board.¹⁷ There are no access expenditures for programs or projects previously
 11 approved by the Board.

12
 13 The Board notes access expenditures are necessary for Newfoundland Power to fulfil its
 14 obligation to provide service. The intervenors did not oppose the proposed access programs
 15 though the Consumer Advocate recommended that the expenditures be reduced. The Board has
 16 found that there should be reductions in three proposed programs in the amount of \$500,000
 17 for the Extensions program, \$300,000 for the Relocate/Replace Distribution Lines for Third
 18 Parties program and \$200,000 for the New Street Lighting program. The Board is satisfied that
 19 approval of the proposed access expenditures with these reductions appropriately balances cost
 20 and Newfoundland Power's obligation to provide access to the electricity system. The Board finds
 21 that Newfoundland Power's proposed access expenditures, reduced by a total of \$1,000,000 are
 22 justified, appropriate and necessary to ensure the delivery of power to its customers at the
 23 lowest possible cost, in an environmentally responsible manner, consistent with reliable service.

24 25 **4.1.3. General Plant**

26
 27 General plant investments relate to assets which are not part of the generation, transmission and
 28 distribution systems used by Newfoundland Power to support its daily business and operational
 29 activities. The 2024 general plant expenditures of \$12,828,000 account for approximately 11% of
 30 the proposed 2024 capital budget, compared to 18% of Newfoundland Power's 2023 Capital
 31 Budget.

32
 33 There are seven projects with expenditures over \$750,000 requiring Board approval.

- 34 • Expenditures of \$1,892,000 are proposed for Application Enhancements to enhance or
 35 replace six software applications that will permit operating efficiencies.
 36 • Expenditures of \$964,000 are proposed for Shared Server Infrastructure for four items to
 37 add, upgrade and replace computer hardware components and related technology to
 38 improve the functionality of Newfoundland Power's shared server infrastructure.
 39 • Expenditures of \$957,000 are proposed for Systems Upgrades to its customer website,
 40 financial management system, and supervisory control system, and other minor upgrades

¹⁶ Application, Schedule B, page 46.

¹⁷ The proposed expenditures are \$302,000. See Application, Schedule C.

1 to implement the latest bug fixes and cybersecurity patches and ensure continued vendor
2 support.

- 3 • Expenditures of \$930,000 are proposed for Cybersecurity Upgrades to reduce risk and
4 enhance security to protect customer and company information and the electrical
5 system.
- 6 • Expenditures of \$297,000 in 2024, \$297,000 in 2025 and \$297,000 in 2026 are proposed
7 for the Microsoft Enterprise Agreement to provide access to the latest version of the
8 products.
- 9 • Expenditures of \$175,000 in 2024 and \$760,000 in 2025 are proposed for the Gander
10 Building Renovation to replace deteriorated and deficient building components identified
11 in a condition assessment, including roofing and cladding systems, and the HVAC unit, the
12 removal of asbestos plaster and the installation of LED lighting.
- 13 • Expenditures of \$1,940,000 in 2024 and \$2,869,000 in 2025 are proposed to Replace
14 Vehicles and Aerial Devices to replace 25 passenger vehicles, one light duty vehicle, and
15 six heavy/medium duty vehicles based on established evaluation criteria and inspections.
16

17 There are also three projects and five programs with expenditures under \$750,000 that do not
18 require Board approval.¹⁸ In addition, the general plant expenditures include one project
19 previously approved by the Board in the amount of \$1,866,000 in 2024.¹⁹
20

21 Newfoundland Power's proposed 2024 general plant expenditures of \$12,828,000 are lower than
22 the expenditures proposed in Newfoundland Power's 2023 capital budget application. The
23 evidence demonstrates that these expenditures will enhance service delivery, communication
24 with customers, the security of its information technology assets, and the reliability of the
25 equipment used to maintain the electrical system. The intervenors did not oppose the proposed
26 general plant expenditures. The Board accepts the expenditures for the project previously
27 approved on the basis that the evidence in this Application confirms that there have been no
28 material changes in the scope, nature or magnitude of these projects and programs.²⁰ The Board
29 is satisfied that the proposed expenditures appropriately balance cost and reliability. The Board
30 finds that Newfoundland Power's proposed general plant expenditures are justified, appropriate
31 and necessary to ensure the delivery of power to its customers at the lowest possible cost, in an
32 environmentally responsible manner, consistent with reliable service.
33

34 **4.1.4. Renewal**

35
36 Renewal investments are those required to replace or refurbish system assets to maintain the
37 ability to provide customers with their current electricity services. The 2024 renewal
38 expenditures of \$60,851,000 account for approximately 53% of the proposed 2024 Capital
39 Budget, compared to 46% of Newfoundland Power's 2023 Capital Budget.

¹⁸ The total expenditures are \$3,807,000. See Application, Schedule C.

¹⁹ Application, Capital Budget Overview, Appendix A, Table A-4, page 7.

²⁰ Application, Capital Budget Overview, page 13.

1 There are 16 renewal programs/projects with expenditures over \$750,000 requiring Board
2 approval. The Consumer Advocate recommended reductions in the expenditures proposed for
3 six programs and submitted that Memorial University should be responsible for the costs of the
4 Memorial Substation project.
5

6 The Consumer Advocate submitted that the proposed expenditures for six renewal programs
7 should be reduced to 2023 levels. It was the Consumer Advocate's position that the proposed
8 expenditures reflect large increases from 2023 to 2024 and Newfoundland Power did not provide
9 evidence that any increase is needed. The Board has reviewed the evidence provided with
10 respect to the expenditures proposed for these six renewal programs and is satisfied that the
11 proposed expenditures should not be reduced. The Board does not believe it is appropriate to
12 forecast these expenditures based on a single year and notes that for many of the identified
13 projects the 2023F expenditures were lower than normal.

- 14 • Expenditures of \$6,953,000 are proposed for the Reconstruction corrective maintenance
15 program to replace deteriorated or damaged distribution structures and electrical
16 equipment that have failed in service, are at imminent risk of failure or present a safety
17 hazard, and require correction within one month. The expenditures for this program have
18 been relatively stable over the recent five-year period, on an inflation-adjusted basis, and
19 the proposed expenditures are not significantly higher than the 2023F expenditures
20 considering inflation.
- 21 • Expenditures of \$4,974,000 are proposed for the Rebuild Distribution Lines preventative
22 maintenance program for the replacement of deteriorated distribution structures and
23 electrical equipment based on the result of inspections and condition assessments on 47
24 identified distribution feeders. The expenditures for this program have been relatively
25 consistent over the recent five-year period, on an inflation-adjusted basis, and the
26 proposed expenditures are very similar to the 2023F expenditures.
- 27 • Expenditures of \$3,681,000 are proposed for the Replacement Transformers program to
28 replace or refurbish distribution system transformers that have failed in-service or are at
29 imminent risk of failure. The expenditures for this program have been consistent over the
30 recent five-year period, on an inflation adjusted basis, and the 2023F expenditures were
31 lower than average.
- 32 • Expenditures of \$863,000 are proposed for the Replacement Street Lighting program to
33 replace failed street lighting equipment, including poles and hardware, which can pose a
34 safety hazard. The expenditures for this program were variable over the period 2021 to
35 2023 and the 2023F expenditures were lower than average.
- 36 • Expenditures of \$4,797,000 are proposed for the Substation Replacements Due to In-
37 Service Failures program to facilitate replacement of substation equipment that has failed
38 or is at imminent risk of failure. While there was some variability in the annual
39 expenditures for this program, there were no outliers and the 2023F expenditures were
40 lower than average.
- 41 • Expenditures of \$2,651,000 are proposed for the Transmission Line Maintenance
42 program to replace infrastructure that has failed or is at risk of failure based on annual
43 inspections which identify and prioritize deficiencies. The expenditures for this program

1 were very consistent, on an inflation-adjusted basis, and the proposed expenditures are
2 effectively the same as the 2023F expenditures.

3
4 The Board accepts the proposed expenditures for these six programs on the basis that the
5 historical averages, adjusted for inflation, reasonably represent the expenditures which can be
6 expected in 2024.

7
8 The Consumer Advocate also raised issues with respect to the recovery of the costs associated
9 with another renewal project to replace deteriorated and obsolete equipment at the Memorial
10 Substation located on the St. John's campus. Expenditures of \$4,351,000 are proposed for the
11 Memorial Substation Refurbishment and Modernization to install new transformer spill
12 containment foundations and firewall between the transformers, replace the 66 kV bus structure
13 and 66 kV equipment, including circuit breakers, switches and potential transformers, new 12.5
14 kV structures and equipment, replace obsolete electromechanical relays and associated
15 communication equipment, and install a new control building and a new ground grid.²¹ The
16 Consumer Advocate did not oppose this project but recommended that the customer, Memorial
17 University ("MUN"), should be responsible for costs.

18
19 The Memorial Substation serves buildings on the MUN campus and the Health Sciences Centre.
20 It is an integral part of the looped 66 kV transmission network which supplies approximately
21 103,000 customers in St. John's and surrounding areas.²² In accordance with Newfoundland
22 Power's approved rate design and cost of service, a portion of the costs of the Memorial
23 Substation Refurbishment and Modernization project will be recovered from MUN through the
24 costs which are assigned to its rate class, General Service Rate # 2.4.²³ There are over 60
25 customers in this class, including MUN, and these customers pay rates that are designed to
26 recover the costs of serving the class as a whole.²⁴ The revenue-to-cost ratio for Rate Class # 2.4
27 is over 100% so that the rates are in excess of the costs of serving the customers in this class.²⁵

28
29 MUN was not asked to pay a contribution to the costs of Memorial Substation Refurbishment
30 and Modernization project on the basis that the infrastructure is necessary to provide reliable
31 service to customers throughout the St. John's region.²⁶ While the Consumer Advocate
32 acknowledged that the transmission lines going into the Memorial Substation, 12L and 14L,
33 benefit many customers on the system, it was his position that the Memorial Substation itself
34 benefits only MUN. According to the Consumer Advocate, at the very least all facilities from the
35 high-voltage switchgear through to the low voltage switchgear, including transformers MUN-T1
36 and T2 benefit only MUN. The Board does not believe that the evidence demonstrates that MUN
37 is the sole beneficiary of the Memorial Substation. Equipment at the Memorial Substation,
38 including circuit breakers, instrumentation devices, disconnect switches and grounding

²¹ Application, Volume 1, Schedule B, page 67; PUB-NP-013, page 3.

²² PUB-NP-013 and PUB-NP-053.

²³ CA-NP-154, and CA-NP-181, page 1.

²⁴ CA-NP-181, page 1.

²⁵ CA-NP-148, page 3, and CA-NP-153, page 4.

²⁶ PUB-NP-013, page 2.

1 equipment, ensures the safe, reliable operation of transmission lines 12L and 14L which is
 2 necessary to maintain the integrity of the St. John's 66 kV transmission network.²⁷ Based on this
 3 the proposed work will contribute to the integrity of the looped 66 kV transmission network
 4 serving St. John's. In terms of whether there are assets at the Memorial Substation that may be
 5 seen as benefiting only MUN, the Board notes that this would require a full review of how costs
 6 should be assigned and how rates should be designed for this class in the context of
 7 Newfoundland Power's overall cost of service and rate design.²⁸ This type of review is usually
 8 conducted in a general rate application or a dedicated cost of service review and is beyond the
 9 scope of this proceeding. The Board notes that the annual revenue requirement associated with
 10 capital expenditures which are not fully contributed by a customer is recovered through
 11 customer rates over the life of the assets.²⁹ The Board will not order that the costs of the
 12 Memorial Substation Refurbishment and Modernization project be recovered from MUN in this
 13 proceeding. A review of the rates charged to MUN may be appropriate when more information
 14 is known about the anticipated changes in its load profile and when the ongoing rate design
 15 review by Newfoundland Power is completed.³⁰

16

17 There are nine other proposed renewal projects which were not addressed in the intervenor
 18 submissions. These projects include three substation refurbishment projects and six other
 19 projects.

20

- 21 • Expenditures of \$8,931,000 in 2024 and \$4,706,000 in 2025 are proposed for three
 22 substation refurbishment and modernization projects to replace deteriorated and
 23 obsolete equipment identified through inspections, engineering assessments and
 24 operating experience.³¹
- 25 • Expenditures of \$900,000 are proposed for the Distribution Reliability Initiative project to
 26 relocate a 4.8 kilometre section of the Western Avalon Substation distribution feeder on
 27 the basis of an engineering assessment which identified issues contributing to the recent
 28 worse-than-average reliability.
- 29 • Expenditures of \$840,000 are proposed for the Distribution Feeder OXP-01
 30 Refurbishment project to replace deteriorated poles, conductor and hardware which
 31 does not meet current standards.
- 32 • Expenditures of \$2,152,000 in 2024 and \$9,209,000 in 2025 are proposed for the
 33 Transmission Line 146L Rebuild project to replace the transmission line between the
 34 Gander and the Gambo Substations to address substandard design and deterioration and
 35 deficiencies identified through inspection.
- 36 • Expenditures of \$362,000 in 2024 and \$1,573,000 in 2025 are proposed for the Lookout
 37 Brook Hydro Plant Refurbishment project to refurbish and upgrade this plant which,

²⁷ PUB-NP-013, PUB-NP-053, and CA-NP-159.

²⁸ CA-NP-181, page 2.

²⁹ CA-NP-154.

³⁰ CA-NP-148, page 3, and CA-NP-153, page 4.

³¹ The Gambo Substation Refurbishment and Modernization project, see Application, Schedule B, page 59; the Islington Substation Refurbishment and Modernization project, Application, Schedule B, page 63; and the Old Perlican Substation Refurbishment and Modernization project, Application, Schedule B, page 71.

1 based on a condition and a risk assessment, contains deteriorated, obsolete and non-
2 standard equipment which need to be addressed.

- 3 • Expenditures of \$977,000 are proposed for the Mobile Hydro Plant Surge Tank
4 Refurbishment project to extend the service life of the tank based on a condition
5 assessment which found deterioration of the protective coating throughout the structure.
- 6 • Expenditures of \$794,000 are proposed for the Hydro Facility Rehabilitation project to
7 replace or refurbish deteriorated hydro plant components at three plants, Pittman's
8 Pond, Lockston and Heart's Content, identified through routine inspections, operating
9 experience and engineering studies.

10
11 There are four renewal projects and five programs with expenditures under \$750,000 that do not
12 require Board approval.³² In addition the 2024 renewal expenditures include four projects
13 previously approved by the Board with expenditures of \$13,055,000.³³

14
15 The Board notes that Newfoundland Power's proposed 2024 renewal expenditures of
16 \$60,851,000 are higher than proposed in Newfoundland Power's 2023 capital budget application.
17 Renewal expenditures continue to make up the majority of Newfoundland Power's capital
18 expenditures. The Board recognizes that appropriate investment in renewal ensures that aging
19 or deteriorating assets are replaced, updated or refurbished before they fail. The level of renewal
20 investments reflects the age and condition of Newfoundland Power's electrical system. The
21 intervenors did not oppose the proposed renewal programs or projects. The Board has found
22 based on the evidence presented in this proceeding that the proposed renewal expenditures
23 should not be reduced and that the costs of the Memorial Substation work should not be charged
24 to the customer. The Board accepts the renewal expenditures associated with projects approved
25 in previous capital budget applications on the basis that the evidence confirms that there were
26 no material changes in the scope, nature or magnitude of these projects and programs.³⁴ The
27 Board is satisfied that the proposed renewal expenditures appropriately balance the need for
28 Newfoundland Power to maintain its system while minimizing the costs to be funded by
29 customers. The Board finds that Newfoundland Power's proposed renewal expenditures are
30 justified, appropriate and necessary to ensure the delivery of power to its customers at the
31 lowest possible cost, in an environmentally responsible manner, consistent with reliable service.

32 33 **4.1.5. Service Enhancement**

34
35 Service enhancement investments are those which modify Newfoundland Power's system to
36 meet system operations requirements more efficiently or effectively. The 2024 service
37 enhancement expenditures of \$7,009,000 account for approximately 6% of the proposed 2024
38 Capital Budget, similar to Newfoundland Power's 2023 Capital Budget.

39
40 There are two projects with expenditures over \$750,000 requiring approval of the Board.

³² The total proposed expenditures are \$4,570,000. See Application, Schedule C.

³³ Application, Capital Budget Overview, Appendix A, Table A-4.

³⁴ Application, Capital Budget Overview, page 13.

- 1 • Expenditures of \$5,541,000 are proposed for the LED Street Lighting Replacement
- 2 project, as part of a six-year plan commenced in 2021 to supply Street and Area Lighting
- 3 customers with LED fixtures contributing to lower rates and better lighting and reliability.
- 4 • Expenditures of \$888,000 are proposed for the Distribution Feeder Automation project
- 5 to install 13 downline reclosers to minimize the number of customers affected during a
- 6 power outage.

7
8 There is one service enhancement project with expenditures under \$750,000 which does not
9 require Board approval.³⁵ There are no service enhancement expenditures for programs or
10 projects previously approved by the Board.

11
12 The Board is satisfied that the proposed service enhancement expenditures offer benefits for
13 customers through decreased costs, better quality service, and increased reliability. The
14 intervenors did not oppose these expenditures. The Board finds that Newfoundland Power's
15 proposed service enhancement expenditures are justified, appropriate and necessary to ensure
16 the delivery of power to its customers at the lowest possible cost, in an environmentally
17 responsible manner, consistent with reliable service.

18 19 **4.1.6. System Growth**

20
21 System growth investments are those which modify Newfoundland Power's system to meet
22 forecast changes in customer electricity requirements. The 2024 system growth expenditures of
23 \$3,262,000 account for approximately 3% of the proposed 2024 Capital Budget, compared to
24 approximately 1% in Newfoundland Power's 2023 Capital Budget.

25
26 There is one proposed system growth project with expenditures over \$750,000 requiring
27 approval of the Board.

- 28 • Expenditures of \$2,811,000 are proposed for the Feeder Additions for Load Growth
- 29 project to address localized load growth on two distribution feeders on the Northeast
- 30 Avalon and one distribution feeder in the Corner Brook area.

31
32 There is also one system growth project with expenditures under \$750,000 that does not require
33 Board approval.³⁶ There are no system growth expenditures for programs or projects previously
34 approved by the Board.

35
36 The intervenors did not oppose the proposed expenditures. The Board is satisfied that
37 Newfoundland Power's proposed system growth expenditures appropriately balance cost and
38 meeting forecast changes in customer electricity requirements. The Board finds that
39 Newfoundland Power's proposed system growth expenditures are justified, appropriate and
40 necessary to ensure the delivery of power to its customers at the lowest possible cost, in an
41 environmentally responsible manner, consistent with reliable service.

³⁵ The proposed expenditures are \$580,000. See Application, Schedule C.

³⁶ The proposed expenditures of \$451,000. See Application, Schedule C.

1 **4.1.7. Use of Historical Averages**

2

3 Newfoundland Power relies on historical averages to estimate the proposed 2024 expenditures
4 for eleven programs in the 2024 Capital Budget. Newfoundland Power has been using historical
5 averages to estimate capital expenditures for many years. Historical averages are used to forecast
6 expenditures related to customer connection growth, customer load, third party requests and
7 repair and replacement programs that are high volume.

8

9 The Board recognizes that historical averages can be a useful tool in estimating the costs that will
10 be required in a year for work which cannot reasonably be known and estimated when the capital
11 budget application is prepared. While the Consumer Advocate also acknowledged that historical
12 averages may be useful for some programs, he submitted that the proportion of the expenditures
13 based on historical averages seems inordinately high. The Board agrees that a significant portion
14 of Newfoundland Power's 2024 Capital Budget are based on historical averages; eleven programs
15 with total expenditures of \$48,865,000 or approximately 42% of the proposed capital budget.
16 While historical averages are used by other Canadian utilities to determine program budgets,
17 based on the evidence it appears that historical averages may be used for a smaller number of
18 projects.³⁷ The Board believes that it would be beneficial for Newfoundland Power to provide
19 more information related to how it determines the expenditures which will be based on historical
20 averages and whether there are alternative approaches. In addition as already discussed there
21 were issues in this proceeding related to how the historical averages are used in the context of
22 potential outliers and trends. The Board notes that based on the evidence it appears that
23 Newfoundland Power has made changes to the way it uses historical average in recent capital
24 budget applications and it would be helpful to have more information about these changes. The
25 Board also notes that the Consumer Advocate raised concerns related to whether the use of
26 historical averages risks perpetuating spending which drives growth in Newfoundland Power's
27 rate base and inadequately accounts for new technologies and improvements. While the Board
28 does not share these particular concerns based on the evidence in this proceeding the Board
29 believes that more information related to the use of historical averages could provide clarity in
30 relation to these issues.

31

32 Newfoundland Power should file a report with its 2025 Capital Budget Application in relation to
33 the use of historical averages. This report should explain the methodology used in estimating
34 expenditures using historical averages, including the rationale as to which expenditures are
35 determined using historical averages, the treatment of outliers and trends, the consideration of
36 other related circumstances, and the time period which is used. This report should also provide
37 more information related to the use of historical averages by other utilities as well as available
38 alternatives.

³⁷ CA-NP-200.

1 4.2 Proposed 2024 Capital Budget

2

3 Newfoundland Power proposed a 2024 Capital Budget in the amount of \$115,252,000 including
4 expenditures of \$89,817,000 requiring Board approval, \$10,514,000 not requiring Board approval
5 and \$14,921,000 previously approved by the Board.

6

7 The Consumer Advocate submitted that Newfoundland Power's capital spending appears
8 excessive and that for 2024 Newfoundland Power can reduce its proposed capital budget without
9 a detrimental impact on reliability. The Board notes that Newfoundland Power's proposed 2024
10 Capital Budget is lower than its approved 2023 Capital Budget of \$122,869,000 and is within the
11 range of its inflation-adjusted annual capital expenditures over the last ten years.³⁸ The Board
12 accepts that Newfoundland Power is focussed on maintaining current levels of overall service
13 reliability for its customers at the lowest possible cost and notes that the frequency and duration
14 of customer outages has been reasonably stable over the last decade under normal operating
15 conditions.³⁹ The Board accepts that Newfoundland Power uses a variety of measures to try to
16 ensure that proposed expenditures are consistent with the least-cost delivery of reliable service,
17 including deferring projects when possible, targeting expenditures in areas that will provide the
18 most benefits for customers and coordinating where possible to realize productivity gains and
19 other cost benefits.⁴⁰ There were seven projects that were planned for 2024 but were deferred
20 to future years, five projects that were previously deferred or modified and are now proposed
21 for 2024, and two projects that were planned for future years but were advanced to 2024.⁴¹
22 These changes were made based on Newfoundland Power's assessment of potential risks to
23 customers and the likelihood of failure and potential reliability, safety, environmental or
24 economic consequences. The Board notes that Newfoundland Power's investment in
25 transmission and distribution assets has increased at a rate consistent with the average of other
26 Atlantic Canadian utilities in recent years while customers experienced 31% fewer outage hours
27 compared to customers of other Atlantic Canadian utilities.⁴²

28

29 The Board has found that the proposed expenditures for three access programs, Extensions,
30 Relocate/Replace Distribution Lines for Third Parties, and New Street Lighting should be reduced
31 by a total of \$1,000,000. With this modification, the Board is satisfied that the proposed 2024
32 expenditures in excess of \$750,000 for the construction, purchase or lease of improvements or
33 additions to Newfoundland Power's property in the amount of \$88,817,000 should be approved.
34 The Board has also accepted the expenditures associated with programs and projects previously
35 approved by the Board based on the evidence confirming that there were no material changes
36 in the scope, nature or magnitude of these projects and programs.⁴³ While expenditures under
37 \$750,000 do not require approval of the Board under subsection 41(3) of the **Act**, they make up
38 part of Newfoundland Power's 2024 Capital Budget which requires the approval of the Board

³⁸ Application, Capital Budget Overview, page 9.

³⁹ Application, Capital Budget Overview, page 8, CA-NP-016, page 1, and PUB-NP-002, page 2.

⁴⁰ CA-NP-010, page 2.

⁴¹ Application, Capital Budget Overview, page 5.

⁴² Application, Capital Budget Overview, page 13.

⁴³ Application, Capital Budget Overview, page 13.

1 pursuant to subsection 41(1) of the **Act**. The Board accepts the information provided in relation
 2 to these expenditures. The Board is satisfied that Newfoundland Power's proposed 2024 Capital
 3 Budget reduced by \$1,000,000 to reflect the access expenditure reductions, represents a
 4 reasonable balance of costs and reliability. The Board finds that Newfoundland Power's 2024
 5 Capital Budget in the amount of \$114,252,000 is justified, reasonable and necessary to ensure
 6 the delivery of power to customers at the lowest possible cost, in an environmentally responsible
 7 manner, consistent with reliable service and should be approved.

8 9 **4.3 Average Rate Base**

10
11 The Application requested that the Board fix and determine Newfoundland Power's 2022
12 average rate base of \$1,230,434,000.⁴⁴

Newfoundland Power Inc.
Computation of Average Rate Base
For The Years Ended December 31
(\$000s)

	2022
Net Plant Investment	
Plant Investment	2,178,072
Accumulated Depreciation	(914,827)
Contributions in Aid of Construction	(45,171)
	\$1,218,074
Additions to Rate Base	
Deferred Pension Costs	95,095
Credit Facility Costs	87
Cost Recovery Deferral - Conservation	19,359
Cost Recovery Deferral - 2022 Revenue Shortfall	459
Cost Recovery Deferral - Load Research and Retail Rate Design Review	20
Customer Finance Programs	1,472
	\$ 116,492
Deductions from Rate Base	
Weather Normalization Reserve	6,576
Demand Management Incentive Account	107
Other Post-Employment Benefits	80,151
Customer Security Deposits	1,270
Accrued Pension Obligation	5,300
Accumulated Deferred Income Taxes	18,076
	\$ 111,480
Year End Rate Base	1,223,086
Average Rate Base Before Allowances	1,211,751
Rate Base Allowances	
Materials and Supplies Allowance	11,978
Cash Working Capital Allowance	6,705
	18,683
Average Rate Base at Year End	\$1,230,434

⁴⁴ Application, Schedule D.

1 Grant Thornton reviewed the calculation of the average rate base for 2022 and did not note any
2 discrepancies. Grant Thornton concluded that the 2022 average rate base accords with
3 established practice and Board Orders.

4

5 The Consumer Advocate and Hydro did not comment on the calculation of Newfoundland
6 Power's 2022 rate base, although the Consumer Advocate reiterated his concern about high
7 capital expenditures continuing to add to the rate base, the cost and risk of which are borne by
8 ratepayers. Newfoundland Power submitted that the Board should fix and determine its average
9 rate base for 2022 at \$1,230,434,000.

10

11 The Board finds that the components of Newfoundland Power's average rate base for 2022 in
12 the amount of \$1,230,434,000 should be approved.

13

14 **4.4 Other Issues**

15

16 The Consumer Advocate raised a number of issues which are not related to the issues to be
17 decided by the Board in this proceeding as they have been or will be addressed in other
18 proceedings. The Board notes that the Consumer Advocate acknowledged that many of these
19 issues may be addressed in Newfoundland Power's general rate application currently before the
20 Board. These issues include:

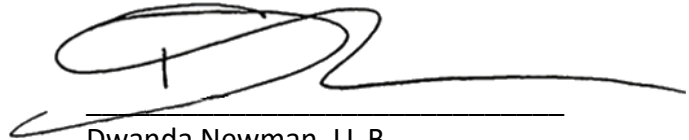
21

- 22 • Newfoundland Power's cost of service and the funding of facilities for a customer.
- 23 • Cost recovery for the MUN-T2 transformer addressed in Order No. P.U. 14(2023).
- 24 • Newfoundland Power's distribution planning process and asset management study.
- 25 • The Board's Capital Budget Guidelines including oral hearings and the envelope approach.
- 26 • Fortis' role in Newfoundland Power's operational and investment planning.

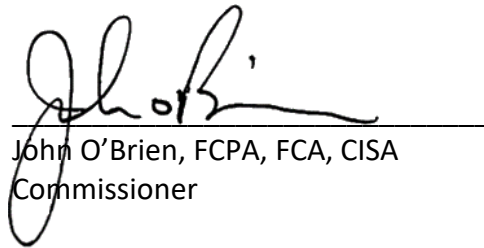
26

27 The Board makes no comment with respect to these issues as they are not relevant to the matters
28 to be addressed in this proceeding or are more appropriately addressed as part of other Board
29 processes.

DATED at St. John's, Newfoundland and Labrador this 13th day of March 2024.



Dwanda Newman, LL.B.
Vice-Chair



John O'Brien, FCPA, FCA, CISA
Commissioner



Christopher Pike, LL.B., FCIP
Commissioner



Jo-Anne Galarneau
Executive Director and Board Secretary