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HAND DELIVERED

December 11, 2019

Board of Commissioners  
of Public Utilities  
P.O. Box 21040  
120 Torbay Road  
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon  
Director of Corporate Services  
and Board Secretary

Ladies and Gentlemen:

**Re: Newfoundland Power's 2020 Capital Budget Application – Brief of Argument**

Please find enclosed the original and 10 copies of Newfoundland Power's Brief of Argument.

For convenience, the Brief of Argument is provided on three-hole punched paper.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours truly,

A handwritten signature in blue ink, appearing to read "Kelly Hopkins", with a long horizontal flourish extending to the right.

Kelly Hopkins  
Corporate Counsel

Enclosures

c. Geoffrey Young, Q.C.  
Newfoundland and Labrador Hydro

Dennis Browne, Q.C.  
Browne Fitzgerald Morgan & Avis

**Newfoundland Power Inc.**

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**IN THE MATTER OF** the *Public Utilities Act*, (the "Act"); and

**IN THE MATTER OF** capital expenditures and rate base of Newfoundland Power Inc.; 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 a 2020 Capital Budget of \$96,614,000;
- (b) approving certain capital expenditures related to multi-year projects commencing in 2020; and
- (c) fixing and determining a 2018 rate base of \$1,117,341,000.

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**BRIEF OF ARGUMENT  
OF  
NEWFOUNDLAND POWER INC.**

**DECEMBER 11, 2019**

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1    **1.0    INTRODUCTION**

2    Newfoundland Power Inc.’s (“Newfoundland Power” or the “Company”) *2020 Capital Budget*  
3    *Application* (the “Application”) was filed with the Newfoundland and Labrador Board of  
4    Commissioners of Public Utilities (the “Board”) on July 5, 2019.

5  
6    The Application seeks an order of the Board: (i) pursuant to Section 41(1) of the *Public Utilities*  
7    *Act*, approving proposed 2020 capital expenditures totalling \$96,614,000; (ii) pursuant to Section  
8    41(1) of the *Public Utilities Act*, approving proposed 2021 capital expenditures of \$8,914,000;  
9    and (iii) pursuant to Section 78 of the *Public Utilities Act*, fixing and determining Newfoundland  
10   Power’s average rate base for 2018 in the amount of \$1,117,341,000.

11

12   **2.0    OVERVIEW**

13   To provide context for the Board’s consideration of the Application, this submission will:  
14   (i) review the legislative framework under which the Application is brought; (ii) address specific  
15   compliance requirements; (iii) summarize the process engaged in by the Board and participants  
16   in consideration of the Application; (iv) address matters raised in the submissions of intervenors;  
17   and (v) conclude with Newfoundland Power’s formal submissions with respect to the  
18   Application.

19

20   **3.0    LEGISLATIVE FRAMEWORK**

21   Section 37(1) of the *Public Utilities Act* states that a public utility shall provide service and  
22   facilities that are reasonably safe and adequate and just and reasonable. Section 37(1) is a  
23   cornerstone of Newfoundland Power’s obligation to serve its customers.

1 Section 3(b) of the *Electrical Power Control Act, 1994* states that all sources and facilities for the  
2 production, transmission, and distribution of power in the province should be managed and  
3 operated in a manner that would result in:

- 4 (i) the most efficient production, transmission, and distribution of power;
- 5 (ii) consumers in the province having equitable access to an adequate supply of  
6 power; and
- 7 (iii) power being delivered to customers in the province at the lowest possible cost  
8 consistent with reliable service.

9  
10 Section 3(b) does not create a hierarchy between these three principles; rather, each is equally  
11 important in the management and operation of electrical facilities in the province.

12  
13 Section 41(1) of the *Public Utilities Act* requires that Newfoundland Power submit for the  
14 Board’s approval “an annual capital budget of proposed improvements and additions to its  
15 property.”

16  
17 Section 41(3) of the *Public Utilities Act* prohibits a utility from proceeding with an improvement  
18 or addition in excess of \$50,000 or a lease in excess of \$5,000 per year without the Board’s prior  
19 approval.

20  
21 The principal focus of this proceeding is whether Newfoundland Power’s proposal for  
22 \$96.6 million in capital expenditures in 2020, and related expenditures in 2021, is reasonably  
23 required for it to meet its statutory obligation to serve its approximately 268,000 customers.

1 Newfoundland Power submits that its 2020 Capital Budget represents the capital expenditures  
2 necessary to maintain its electrical system and to continue to meet its statutory obligations under  
3 Section 37(1) of the *Public Utilities Act* and Section 3(b) of the *Electrical Power Control Act*,  
4 *1994*.

5  
6 **4.0 COMPLIANCE MATTERS**

7 **4.1 Board Orders**

8 In Order No. P.U. 35 (2018) (the “2019 Capital Order”), the Board required specific information  
9 to be filed with the Application. The Application complies with the requirements of the 2019  
10 Capital Order.

11  
12 In Order No. P.U. 35 (2003) (the “2004 Capital Order”), the Board required specific information,  
13 and in particular a five-year capital plan, to be provided with the Application. The Application  
14 complies with the requirements of the 2004 Capital Order.

15  
16 In Order No. P.U. 19 (2003) (the “2003 Rate Order”), the Board required that evidence relating  
17 to deferred charges and a reconciliation of average rate base to invested capital be filed with the  
18 Application. The Application complies with the requirements of the 2003 Rate Order.

19  
20 In Order No. P.U. 32 (2007) (the “2008 Rate Order”), the Board approved Newfoundland  
21 Power’s calculation of rate base in accordance with the Asset Rate Base Method. The  
22 Application complies with the requirements of the 2008 Rate Order.

1 In Order No. P.U. 2 (2019) (the “2019/2020 Rate Order”), the Board approved a change in the  
2 capitalization of pension expense. The Application complies with the requirements of the  
3 2019/2020 Rate Order.

4

#### 5 **4.2 Capital Budget Application Guidelines**

6 In the Capital Budget Application Guidelines dated October 2007 (the “CBA Guidelines”), the  
7 Board outlined certain directions on how to define and categorize capital expenditures. Although  
8 compliance with the CBA Guidelines necessarily requires exercising a degree of judgment, the  
9 Application, in Newfoundland Power’s view, complies with the CBA Guidelines while  
10 remaining reasonably consistent with past filings.

11

12 Section 2 of the *2020 Capital Plan* provides a breakdown of the 2020 Capital Budget by  
13 definition, classification, costing method and materiality segmentation, as required by the CBA  
14 Guidelines.

15

#### 16 **5.0 PROCESS**

##### 17 **5.1 Proceedings of Record**

18 On July 18, 2019, the Board established a schedule for the hearing of the Application. The  
19 schedule provided for, among other things, the submission of Requests for Information (“RFIs”)  
20 on or before August 12, 2019, with a deadline for response of September 6, 2019.

21

22 On August 12, 2019, the Board issued eight RFIs to Newfoundland Power. On August 12, 2019,  
23 Newfoundland and Labrador Hydro (“Hydro”) issued 37 RFIs. The Consumer Advocate, who  
24 was an intervenor in the hearing of the Application, did not submit any RFIs on or before

1 August 12, 2019. On September 6, 2019, Newfoundland Power responded to all 45 RFIs that  
2 had been issued on the Application.

3  
4 On September 11, 2019, the Consumer Advocate requested, among other things, that the Board  
5 order Newfoundland Power to participate in a technical conference on the Application.

6 Following an exchange of correspondence among the Board and the parties to the Application,  
7 the Board directed that Newfoundland Power participate in a technical conference to address its  
8 capitalization policy and its practices related to transmission line maintenance and rebuilding.

9  
10 The technical conference was held at the Board offices on November 14, 2019. Following the  
11 technical conference, Hydro issued three RFIs on November 19, 2019. On November 21, 2019,  
12 the Consumer Advocate issued 17 RFIs.

13  
14 Newfoundland Power responded to these additional 20 RFIs on November 28, 2019.

15  
16 No intervenor evidence was filed in the proceeding.

17

## 18 **5.2 Intervenor’s Submissions**

19 On December 4, 2019, Hydro filed a written submission with the Board (“Hydro’s Submission”).

20 On December 5, 2019, the Consumer Advocate filed a written submission with the Board (the  
21 “Consumer Advocate’s Submission”).

22

23 Sections 6 and 7 outline Newfoundland Power’s responses to the Consumer Advocate’s  
24 Submission and Hydro’s Submission, respectively.



### 1 **5.3 Evidentiary Matters**

2 The Board is legally required to determine issues on the basis of the evidence before it.

3

4 The primary evidence on the record of this proceeding was filed by Newfoundland Power.

5 Newfoundland Power's evidence includes: (i) the Application and supporting schedules;

6 (ii) professional engineering reports and expert evidence filed with the Application; and

7 (iii) responses to 65 RFIs.

8

9 The Application has also been extensively reviewed by Grant Thornton LLP ("Grant Thornton"),  
10 the Board's financial consultants. The Grant Thornton report contains the findings of this review  
11 and forms a part of the evidence before the Board.

12

13 The intervenor submissions do not constitute evidence.

14

## 15 **6.0 RESPONSE TO CONSUMER ADVOCATE'S SUBMISSION**

### 16 **6.1 General**

17 The Consumer Advocate's Submission takes no exception with certain projects in the

18 Application and accepts a number of projects as appearing reasonable. These projects are:

19 (i) *Hydro Facility Rehabilitation*; (ii) *Rattling Brook Plant Refurbishment*; (iii) *Thermal Plant*

20 *Facility Rehabilitation*; (iv) *Replacements Due to In-Service Failures*; (v) *PCB Bushing*

21 *Phase-out*; (vi) *Meters*; (vii) *Street Lighting*; (viii) *Transformers*; (ix) *Reconstruction*;

22 (x) *Relocate/Replace Distribution Lines for Third Parties*; (xi) *Allowance for Funds Used*

23 *During Construction*; (xii) *Tools and Equipment*; (xiii) *Additions to Real Property*;

1 (xiv) *Physical Security Upgrades*; (xv) all Telecommunications projects; (xvi) all Information  
2 Systems projects; and (xvii) *Unforeseen Allowance*.

3 Reference: Consumer Advocate's Submission, paragraphs 20(i), 20(ii), 21, 22(ii), 22(iii), 24(ii),  
4 24(iv), 24(v), 24(vi), 24(viii), 24(xiii), 25(i), 25(ii), 25(iv), 27, 28 and 29.  
5

6 Newfoundland Power submits that each of these projects is justified in the evidence on the  
7 record of this proceeding and should be approved by the Board.  
8

9 The Consumer Advocate's Submission states certain projects should not be undertaken, should  
10 be deferred, or should be extended over a longer period of time. The Consumer Advocate did  
11 not file any evidence in this proceeding that any proposed project is inconsistent with  
12 Newfoundland Power's statutory obligations. There is no evidentiary basis upon which to  
13 eliminate, defer or extend any project in the Application.  
14

15 Sections 6.2 through 6.9 address the Consumer Advocate's Submission on these projects in  
16 further detail, including certain observations made by the Consumer Advocate that are incorrect  
17 or not reflective of the evidence on the record of this proceeding.  
18

## 19 **6.2 Generation - Hydro**

### 20 Consumer Advocate's Submission

21 The Consumer Advocate's Submission states that there is no substantive evidence presented that  
22 the *Petty Harbour Hydro Plant Refurbishment* and *Topsail Hydro Plant Penstock Replacement*  
23 projects are urgent. The Consumer Advocate recommends the proposed projects be deferred or  
24 spread out over a longer period of time. The Consumer Advocate also questions the economic  
25 benefits of the proposed projects.

1 Reference: Consumer Advocate’s Submission, paragraph 20.

2

3 The Consumer Advocate’s Submission is incorrect and not reflective of the evidence on the record  
4 of this proceeding.

5

6 Evidence

7 The *Petty Harbour Hydro Plant Refurbishment* project involves the replacement of a 250-metre  
8 woodstave penstock installed in 1954. A condition assessment by Mitchelmore Engineering  
9 Company (“Meco”) concluded that the woodstave portion of the penstock is in poor condition, has  
10 reached the end of its useful life and requires replacement in 2020. In addition, the Unit 2 and  
11 Unit 3 turbine inlet valves are not sealing properly and require replacement. The inlet valve  
12 replacement will be coordinated with the penstock replacement to minimize plant outages.

13 Reference: Application, Tab 1.3, *Petty Harbour Hydro Plant Refurbishment*, pages 5-6 and  
14 Appendix C.

15

16 The *Topsail Hydro Plant Penstock Replacement* project is a two-year project involving the  
17 replacement of a 1,910-metre woodstave penstock installed in 1981. A condition assessment by  
18 Meco concluded that the woodstave penstock is in poor condition, has reached the end of its useful  
19 life and requires replacement.

20 Reference: Application, Tab 1.4, *Topsail Hydro Plant Penstock Replacement*, Appendix C.

21

22 The Application includes economic analyses for both the *Petty Harbour Hydro Plant*  
23 *Refurbishment* project and *Topsail Hydro Plant Penstock Replacement* project. The economic

1 analyses determined that completion of the proposed projects and continued operation of both  
2 plants is consistent with the provision of least-cost, reliable service to customers.<sup>1</sup>

3 Reference: Application, Tab 1.3, *Petty Harbour Hydro Plant Refurbishment*, Appendix B;  
4 Application, Tab 1.4, *Topsail Hydro Plant Penstock Replacement*, Appendix B.

5

### 6 Newfoundland Power's Submission

7 Newfoundland Power submits that the *Petty Harbour Hydro Plant Refurbishment* project and  
8 *Topsail Hydro Plant Penstock Replacement* project are justified in the evidence on the record of  
9 this proceeding and should be approved by the Board.

10

## 11 **6.3 Substations**

### 12 **6.3.1 Substation Refurbishment and Modernization**

#### 13 Consumer Advocate's Submission

14 The Consumer Advocate's Submission states that there is no evidence that the work proposed under  
15 the *Substation Refurbishment and Modernization* project is urgent. The Consumer Advocate  
16 recommends that this work be deferred indefinitely. The Consumer Advocate suggests that, if  
17 problems arise, they can be addressed under the *Replacement Due to In-service Failures* project.

18 Reference: Consumer Advocate's Submission, paragraph 22(i).

19

20 The Consumer Advocate's Submission essentially recommends that Newfoundland Power's  
21 substation equipment be run to failure. This recommendation is not accompanied by evidence and  
22 would be inconsistent with the delivery of safe and reliable service to customers.

---

<sup>1</sup> The economic analyses are based on post-Muskrat Falls costs as provided in Hydro's *Marginal Cost Study Update – 2018 Summary Report*.

1 *Evidence*

2 Newfoundland Power’s substations are critical to electrical system reliability; an unplanned  
3 substation outage can affect thousands of customers. It is therefore essential that substation  
4 outages be avoided where possible.

5  
6 The *Substation Refurbishment and Modernization* project underpins Newfoundland Power’s  
7 approach to maintaining the safe and reliable operation of its substations. The *2020 Substation*  
8 *Refurbishment and Modernization* project involves the planned replacement and modernization  
9 of deteriorated and substandard infrastructure at the Company’s Marystown, Bonavista and  
10 Grand Bay substations. This work is identified through inspections, engineering assessments and  
11 operating experience. It includes the replacement of deteriorated power transformers, bus  
12 structures, breakers, potential transformers, support structures, equipment foundations,  
13 grounding, switches and fencing.

14 Reference: Application, Schedule B, page 15.

15  
16 The *2020 Substation Refurbishment and Modernization* project also includes the replacement of  
17 electromechanical relays in the Marystown, Bonavista and Grand Bay substations.

18 Electromechanical relays are obsolete and spare parts are no longer available. It has been  
19 Newfoundland Power’s experience that electromechanical relays tend to fail as they approach 40  
20 years of age. Failure of protective relaying can result in widespread outages and significant  
21 equipment damage, which can jeopardize the safe operation of the electrical system.

22 Reference: Application, Tab 2.1, *2020 Substation Refurbishment and Modernization*, pages  
23 4, 11 and 12; *2007 Capital Budget Application*, Tab 2.1 *Substation Strategic Plan*,  
24 pages 8-9.

1 In a report dated December 17, 2014, the Board’s consultant, The Liberty Consulting Group  
2 (“Liberty”), concluded Newfoundland Power uses reasonable practices in replacing obsolete  
3 electromechanical relays with modern microprocessor-controlled relays.

4 Reference: *Report on Island Interconnected System to Interconnection with Muskrat Falls*  
5 *addressing Newfoundland Power Inc.*, Liberty, page 25.  
6

7 The 2020 *Substation Refurbishment and Modernization Project* is necessary to address deteriorated  
8 plant and obsolete equipment. The project is consistent with Newfoundland Power’s obligation to  
9 provide safe and reliable electrical service to customers.

10 Reference: Application, Tab 2.1, *2020 Substation Refurbishment and Modernization*, page 1.  
11

#### 12 Newfoundland Power’s Submission

13 Newfoundland Power submits that the *Substation Refurbishment and Modernization* project is  
14 justified in the evidence on the record of this proceeding and should be approved by the Board.  
15

#### 16 **6.3.2 Substation Feeder Termination**

##### 17 Consumer Advocate’s Submission

18 The Consumer Advocate’s Submission states that the *Substation Feeder Termination* project “may  
19 be reasonable.” The Consumer Advocate also submits that “more information pertaining to the  
20 project should be forthcoming.”

21 Reference: Consumer Advocate’s Submission, paragraph 22(iv).  
22

23 The Consumer Advocate did not issue any RFIs in relation to the *Substation Feeder Termination*  
24 project. The Consumer Advocate’s Submission does not specify what further information  
25 pertaining to the project should be forthcoming.

1 Evidence

2 The *Substation Feeder Termination* project is clustered with the *Feeder Additions for Load Growth*  
3 *Distribution* project to construct a new 12.5 kV distribution feeder at Glendale Substation. The  
4 construction of a new feeder originating at Glendale Substation is required to alleviate existing  
5 overload conditions on the 12.5 kV transformers in Hardwood’s Substation and to accommodate  
6 load growth in the Donovan’s Industrial Park and Galway Development areas. The addition of a  
7 new feeder at Glendale Substation is the least-cost option to resolve the identified overload  
8 conditions.

9 Reference: Application, Schedule B, pages 21 and 50; Application, Tab 4.2, *Feeder Additions*  
10 *for Load Growth*, page 5.  
11

12 The *Substation Feeder Termination* project is justified on the obligation to provide equitable access  
13 to an adequate supply of power.  
14

15 Newfoundland Power’s Submission

16 Newfoundland Power submits that the *Substation Feeder Termination* project is justified in the  
17 evidence on the record of this proceeding and should be approved by the Board.  
18

19 **6.4 Transmission**

20 Consumer Advocate’s Submission

21 The Consumer Advocate’s Submission states that there is “no proven evidentiary urgency” for the  
22 *Transmission Line Rebuild* project. The Consumer Advocate further submits that the project  
23 “requires further evaluation and the opportunity for expert intervenor scrutiny.”

24 Reference: Consumer Advocate’s Submission, paragraph 23.

1 The review schedule for the Application established by the Board provided for more than five  
2 weeks for evaluation and expert intervenor scrutiny between the filing of the Application and the  
3 issuance of RFIs by intervenors. In that time, the Consumer Advocate issued no RFIs or expert  
4 evidence on the Application.

5 Reference: *Newfoundland Power Inc. 2020 Capital Budget Application Schedule*, July 18, 2019.

6  
7 The Consumer Advocate’s Submission states that there is “no information” as to whether  
8 transmission line maintenance practices should be used to further extend the life of the transmission  
9 lines which are proposed to be rebuilt as part of the *Transmission Line Rebuild* project. The  
10 Consumer Advocate further observes that “there are no independent studies commissioned by the  
11 Board or Newfoundland Power concerning the rebuilding of transmission lines identified in the  
12 2020 Capital Budget Application.” The Consumer Advocate suggests that the *Transmission Line*  
13 *Rebuild* project should not be approved in the absence of evidence of “outages and times and  
14 causes, and what and when repairs have been carried out already, and at what cost to ratepayers.”

15 Reference: Consumer Advocate’s Submission, paragraphs 35 to 37.

16  
17 The Consumer Advocate’s Submission is incorrect and not reflective of the evidence on the record  
18 of this proceeding.

19  
20 The Consumer Advocate’s Submission also states that “when asked to provide a list of all poles  
21 replaced on the transmission lines which were the subject of the application over the last ten years,  
22 the indication was Transmission Line 363L had two poles replaced, 403L four poles, 49L six poles.  
23 It is telling that annual inspections over that period only found the need to replace such a limited  
24 number of poles.”



1 Reference: Consumer Advocate’s Submission, paragraph 37.

2

3 The Consumer Advocate’s Submission does not articulate a specific conclusion regarding the  
4 number of poles replaced.

5

6 Evidence

7 Newfoundland Power’s transmission lines are the backbone of the electrical system providing  
8 service to customers. Transmission line failures typically result in outages to thousands of  
9 customers at once. The criticality of transmission lines in the delivery of electricity to large  
10 numbers of customers requires Newfoundland Power to be proactive in its approach to addressing  
11 the risk of prolonged customer outages.

12 Reference: Application, Tab 3.1, *2020 Transmission Line Rebuild*, page 1; Response to Request  
13 for Information NLH-NP-006.

14

15 Newfoundland Power’s robust inspection and maintenance practices contribute to the life extension  
16 of its aged and deteriorated transmission lines. Details of the maintenance carried out on  
17 transmission lines 363L, 403L and 49L during the 10-year period 2009 to 2018, together with the  
18 associated costs, were provided in response to an RFI on the record of this proceeding. When  
19 maintenance of a line is no longer feasible, the line must be rebuilt.

20 Reference: Response to Request for Information CA-NP-012.

21

22 The *Transmission Line Rebuild* project is necessary to replace deteriorated transmission line  
23 infrastructure. The 2020 project involves the rebuilding of the Company’s oldest, most deteriorated  
24 transmission lines in accordance with the program outlined in report *3.1 Transmission Line Rebuild*  
25 *Strategy* of Newfoundland Power’s *2006 Capital Budget Application*.

1 Reference: Application, Schedule B, page 24.

2  
3 Evidence demonstrating the necessity of the capital expenditures proposed in the *Transmission Line*  
4 *Rebuild* project for 2020 was provided in a detailed engineering report. This evidence includes the  
5 results of detailed engineering assessments describing the level of deterioration found on each  
6 transmission line included in the project. Each engineering assessment concluded that, based on the  
7 level of deterioration, the transmission line had reached a point where continued maintenance was  
8 no longer feasible.

9 Reference: Application, Tab 3.1, *2020 Transmission Line Rebuild*; Responses to Requests for  
10 Information PUB-NP-007, NLH-NP-001 to 009, CA-NP-008, and CA-NP-011 to  
11 016.  
12

13 The *Transmission Line Rebuild* project is not limited to the replacement of deteriorated poles. The  
14 project also addresses deteriorated cross arms, cracks in insulators and other hardware deficiencies.  
15 For example, the report filed in the *2018 Capital Budget Application* in support of the multi-year  
16 rebuild of transmission line 363L identified 406 deficiencies, including 374 deteriorated crossarms.  
17 This project was first approved by the Board in Order No. P.U. 37 (2017) and is proposed to  
18 conclude in 2020.

19 Reference: *2018 Capital Budget Application*, Tab 3.1, *2018 Transmission Line Rebuild*, page 3.

20  
21 There has been recent independent validation of Newfoundland Power's approach to rebuilding its  
22 transmission lines. The *Transmission Line Rebuild Strategy* was among the capital programs  
23 reviewed by Liberty in 2014. Liberty found that Newfoundland Power's maintenance and capital

1 programs appropriately recognize the age of its assets and contribute to improved reliability, while  
2 keeping annual capital expenditures under control.<sup>2</sup>

3 Reference: Response to Request for Information PUB-NP-007, page 5.

4

5 *Newfoundland Power's Submission*

6 Newfoundland Power submits that the *Transmission Line Rebuild* project is justified in the  
7 evidence on the record of this proceeding and should be approved by the Board.

8

9 **6.5 Distribution**

10 **6.5.1 Extensions**

11 *Consumer Advocate's Submission*

12 The Consumer Advocate's Submission states that, regarding the *Extensions* project, the Application  
13 does not contain "sufficient information to state from where this growth is coming and who these  
14 new customers could be and why these upgrades are required."

15 Reference: Consumer Advocate's Submission, paragraph 24(i).

16

17 The Consumer Advocate's Submission is not reflective of the evidence on the record of this  
18 proceeding.

---

<sup>2</sup> In addition to the investigation completed by Liberty, there were two other independent reviews completed by George Baker, P. Eng. and D. G. Brown, P. Eng. in the 1990s with specific references to the transmission lines engineered and operated by Newfoundland Power. These references were included in the response to Request for Information CA-NP-011.

1 Evidence

2 The *Extensions* project involves the construction of both primary and secondary distribution lines to  
3 connect new customers to the electrical distribution system. The project also includes upgrades to  
4 the capacity of existing lines to accommodate customers' increased electrical loads. This project is  
5 justified based on the obligation to provide equitable access to an adequate supply of power.

6 Reference: Application, Schedule B, page 28.

7

8 While customer growth has declined in recent years, Newfoundland Power is projecting 2,639 new  
9 customers in 2020. This is consistent with the 2,781 new customers the Company was required to  
10 connect in 2018 and the forecast of 2,775 new customers for 2019.

11 Reference: Application, Schedule B, page 29, Table 2.

12

13 The project cost for the connection of new customers is estimated on the basis of historical data.  
14 The forecast number of new customers is derived from economic projections provided by  
15 independent agencies. Budgeting for capital projects, such as the *Extensions* project, based on  
16 historical data enables Newfoundland Power to respond effectively to customer-driven work  
17 requests.

18 Reference: Application, Schedule B, page 29.

19

20 Newfoundland Power's Submission

21 Newfoundland Power submits that the *Extensions* project is justified in the evidence on the record  
22 of this proceeding and should be approved by the Board.

1 **6.5.2 Services**

2 Consumer Advocate's Submission

3 The Consumer Advocate's Submission states that, in the context of slower load growth, the  
4 proposed capital expenditure for the *Services* project "requires further scrutiny."

5 Reference: Consumer Advocate's Submission, paragraph 24(iii).

6

7 The Consumer Advocate's Submission is not reflective of the evidence on the record of this  
8 proceeding.

9

10 Evidence

11 The *Services* project involves the installation of service wires to connect new customers to the  
12 electrical distribution system. The project also includes the replacement of existing service wires  
13 due to deterioration, failure or damage, as well as the installation of larger service wires to  
14 accommodate customers' additional loads.

15 Reference: Application, Schedule B, page 33.

16

17 The *new* component of this project addresses customers' new service requirements and is justified  
18 based on Newfoundland Power's obligation to provide equitable access to an adequate supply of  
19 power. The *replacement* component is justified on the basis of the obligation to provide continued  
20 safe, reliable electrical service.

21 Reference: Application, Schedule B, page 33.

22

23 The project cost for the connection of new customers is estimated on the basis of historical data.

24 The forecast number of new customers is derived from economic projections provided by

1 independent agencies.<sup>3</sup> Budgeting for capital projects, such as the *Services* project, based on  
2 historical data enables Newfoundland Power to respond effectively to customer-driven work  
3 requests.

4 Reference: Application, Schedule B, page 34.

5  
6 *Newfoundland Power’s Submission*

7 Newfoundland Power submits that the *Services* project is justified in the evidence on the record of  
8 this proceeding and should be approved by the Board.

9  
10 **6.5.3 *Street Lighting***

11 *Consumer Advocate’s Submission*

12 The Consumer Advocate’s Submission recommends that “the plan to replace existing fixtures with  
13 LED fixtures be delayed and deferred until there is greater clarity on rate mitigation.”

14 Reference: Consumer Advocate’s Submission, paragraph 24(iv).

15  
16 *Evidence*

17 In 2019, the Company adopted LED technology as its street lighting standard for all new and  
18 replacement street lighting installations. The adoption of this standard followed Board approval of  
19 a new service offering for LED street lighting as part of Newfoundland Power’s *2019/2020 General*  
20 *Rate Application*. The Board found that this service offering would be beneficial to customers and  
21 would offer lower rates compared to rates for high-pressure sodium lighting.

22 Reference: Application, Schedule B, page 36; Order No. P.U. 2 (2019), page 8, lines 19-20.

---

<sup>3</sup> Information regarding Newfoundland Power’s projection of new customers in 2020 is provided in Section 6.5.1 Extensions.

1 The large-scale replacement of existing high-pressure sodium street lighting fixtures with LED  
2 technology is currently in the Company’s five-year capital plan commencing in 2021. Specific  
3 capital expenditure proposals for the large-scale replacement program will be justified in future  
4 capital budget filings.

5  
6 Newfoundland Power’s Submission

7 Newfoundland Power submits the Board does not specifically approve Newfoundland Power’s five-  
8 year capital plan and a decision on the Company’s LED replacement program should be deferred to  
9 a future proceeding when specific capital expenditures are proposed.

10

11 **6.5.4 Rebuild Distribution Lines**

12 Consumer Advocate’s Submission

13 The Consumer Advocate’s Submission states that the *Rebuild Distribution Lines* project should be  
14 “extended over the next two to five years during this period of rate pressure until there is greater  
15 clarity on rate mitigation and Muskrat Falls and its impacts and further data for intervenor  
16 scrutiny.”

17 Reference: Consumer Advocate’s Submission, paragraph 24(vii).

18

19 There is no evidentiary basis for the Consumer Advocate’s Submission that the *Rebuild*  
20 *Distribution Lines* project should be extended over two to five years.

21

22 Evidence

23 Newfoundland Power has over 10,000 kilometres of distribution lines in service and has an  
24 obligation to maintain this plant in good condition to safeguard the public and its employees and to

1 maintain reliable electrical service for customers. The replacement of deteriorated distribution  
2 structures and equipment is an important element of this obligation.

3 Reference: Application, Schedule B, page 43.

4

5 The *Rebuild Distribution Lines* project involves the replacement of deteriorated distribution  
6 structures and electrical equipment that have been previously identified through the ongoing  
7 preventative maintenance program or engineering reviews. The project is justified on the basis of  
8 the need to replace defective or deteriorated electrical equipment in order to maintain a safe and  
9 reliable electrical system.

10 Reference: Application, Schedule B, page 43.

11

12 Newfoundland Power's distribution feeders are inspected on a 7-year inspection cycle with  
13 identified deficiencies addressed in the following year. For 2020, the *Rebuild Distribution Lines*  
14 project includes work on 42 of the Company's 305 feeders that were inspected in 2019.

15 Reference: Application, Schedule B, page 43.

16

17 Extending the work required for a single year of the *Rebuild Distribution Lines* project over two to  
18 five years would have a cumulative effect on the overall distribution inspection and maintenance  
19 program. The practical result would be to extend the time required to replace defective or  
20 deteriorated electrical equipment on distribution feeders. This would have an unacceptable impact  
21 on the safety and reliability of Newfoundland Power's electrical system.



1 *Newfoundland Power’s Submission*

2 Newfoundland Power submits that the *Rebuild Distribution Lines* project is justified in the evidence  
3 on the record of this proceeding and should be approved by the Board.

4

5 **6.5.5 *Trunk Feeders***

6 *Consumer Advocate’s Submission*

7 The Consumer Advocate’s Submission states that the *Trunk Feeders* project “requires more  
8 information.”

9 Reference: Consumer Advocate’s Submission, paragraph 24(ix).

10

11 The Consumer Advocate’s Submission does not specify the nature of the additional information  
12 required. Furthermore, the Consumer Advocate did not file any RFIs requesting additional  
13 information related to the *Trunk Feeders* project.

14

15 *Evidence*

16 Evidence demonstrating the necessity of the capital expenditures proposed in the 2020 *Trunk*  
17 *Feeders* project was provided in detailed engineering reports. In addition, Newfoundland Power  
18 responded to two RFIs on the project.

19 Reference: Application, Tab 4.3, *GFS-06 Distribution Feeder Refurbishment*; Tab 4.4, *Vault*  
20 *Refurbishment and Modernization*; Responses to Requests for Information  
21 NLH-NP-036 and NLH-NP-037.

22

23 *Newfoundland Power’s Submission*

24 Newfoundland Power submits the *Trunk Feeders* project is justified on the record of this  
25 proceeding and should be approved by the Board.

1 **6.5.6 Feeder Additions for Load Growth**

2 Consumer Advocate's Submission

3 The Consumer Advocate's Submission states that the *Feeder Additions for Load Growth* project  
4 "should be spread out over an additional 1 to 6 years until demographic and load are settled issues."

5 Reference: Consumer Advocate's Submission, paragraph 24(x).

6

7 There is no evidentiary basis for the Consumer Advocate's Submission that the *Feeder Additions*  
8 *for Load Growth* project should be spread out over an additional one to six years.

9

10 Evidence

11 The *Feeder Additions for Load Growth* project consists of expenditures to address identified  
12 overload conditions and provide additional capacity to address growth in the number of  
13 customers and volume of energy deliveries. Actual peak load conditions and customer growth  
14 indicate that this project is warranted in order to maintain the electrical system within  
15 recommended guidelines.

16 Reference: Application, Schedule B, pages 50 and 51.

17

18 Evidence demonstrating the necessity of the capital expenditures proposed in the *Feeder Additions*  
19 *for Load Growth* project was provided in a detailed engineering report. In addition, Newfoundland

20 Power responded to two RFIs on the project.

21 Reference: Application, Tab 4.2, *Feeder Additions for Load Growth*; Responses to Requests for  
22 Information NLH-NP-034 and NLH-NP-035.

23

24 The *Feeder Additions for Load Growth* project will address four identified overload conditions in  
25 2020. The overload conditions identified exceed the planning criteria for maximum current on the

1 individual distribution system components. These overload conditions must be addressed in 2020  
2 to ensure the continued provision of safe and reliable service to customers. The individual projects  
3 included in the *Feeder Additions for Load Growth* project are the least-cost solutions to address  
4 existing overload conditions on the identified distribution feeders.

5 Reference: Application, Tab 4.2, *Feeder Additions for Load Growth*.

6

7 *Newfoundland Power's Submission*

8 Newfoundland Power submits that the *Feeder Additions for Load Growth* project is justified in the  
9 evidence on the record of this proceeding and should be approved by the Board.

10

11 **6.5.7 Distribution Reliability Initiative**

12 *Consumer Advocate's Submission*

13 The Consumer Advocate's Submission states that "the reliability statistics for the project's three  
14 chosen feeders are reasonable and these expenditures cannot be justified at this time."

15 Reference: Consumer Advocate's Submission, paragraph 24(xi).

16

17 There is no evidentiary basis for the Consumer Advocate's Submission that reliability statistics for  
18 the three feeders included in the project are reasonable.

19

20 *Evidence*

21 The *Distribution Reliability Initiative* project is justified on the basis of the obligation to provide  
22 reliable electrical service to customers. Individual feeder projects have been prioritized based on  
23 their historic interruption statistics. Due to the deteriorated condition of the distribution

1 infrastructure, customers supplied by the worst-performing feeders experience outages more often,  
2 or of longer duration, than the Company average.

3 Reference: Application, Schedule B, page 52.

4  
5 The 2020 *Distribution Reliability Initiative* project involves work on feeders servicing customers on  
6 the Cape Shore (DUN-01), in communities from Gander Bay South to Musgrave Harbour  
7 (GBY-03) and in Mount Pearl (GDL-04). Distribution interruption statistics indicate that the  
8 reliability experienced by customers served by these three feeders is significantly poorer than the  
9 Company average. The SAIFI for DUN-01 is 3.6 times the Company average and GBY-03 is 2.4  
10 times the Company average.<sup>4</sup> The SAIDI for DUN-01 is 5.2 times the Company average and  
11 GBY-03 is 3.8 times the Company average.<sup>5</sup> The CHIKM for GDL-04 is 4.0 times the Company  
12 average.<sup>6</sup>

13 Reference: Application, Schedule B, page 52; Application, Tab 4.1, *Distribution Reliability*  
14 *Initiative*, pages 2 and 3.

15  
16 Targeting capital expenditures in areas experiencing the worst service reliability is consistent with  
17 both customers' service expectations and the obligation to provide equitable access to an adequate  
18 supply of power.

19 Reference: Response to Request for Information CA-NP-010.

---

<sup>4</sup> SAIFI is calculated by dividing the number of customers that have experienced an outage by the total number of customers in an area. Distribution SAIFI records the average number of outages related to distribution system failure. Essentially, customers on these feeders experience outages 3.6 times and 2.4 times as often, respectively, as those experienced by the average customer.

<sup>5</sup> SAIDI is calculated by dividing the number of customer-outage-hours (e.g., a 2-hour outage affecting 50 customers equals 100 customer-outage-hours) by the total number of customers in an area. Distribution SAIDI records the average hours of outage related to distribution system failure. Essentially, customers on these feeders experience outages that are 5.2 times and 3.8 times as long, respectively, as those experienced by the average customer.

<sup>6</sup> CHIKM is calculated by dividing the number of customer-outage-hours by the kilometres of line. This index is used to identify feeders with the worst reliability performance in densely-populated areas.

1 Newfoundland Power's Submission

2 Newfoundland Power submits that the *Distribution Reliability Initiative* project is justified in the  
3 evidence on the record of this proceeding and should be approved by the Board.

4

5 **6.5.8 Distribution Feeder Automation**

6 Consumer Advocate's Submission

7 The Consumer Advocate's Submission states that the *Distribution Feeder Automation* project  
8 should be "deferred or spread over period (*sic*) of two to four years."

9 Reference: Consumer Advocate's Submission, paragraph 24(xii).

10

11 There is no evidentiary basis for the Consumer Advocate's Submission that the *Distribution*  
12 *Feeder Automation* project should be deferred or spread over a period of two to four years.

13

14 Evidence

15 The *Distribution Feeder Automation* project involves increasing the level of automation in the  
16 Company's distribution system. Increasing the level of automation in the distribution system is  
17 consistent with a recommendation arising from the Board's *Investigation and Hearing into*

18 *Supply Issues and Power Outages on the Island Interconnected System*.<sup>7</sup>

19 Reference: Application, Schedule B, page 55.

---

<sup>7</sup> Recommendation 2.4 of Liberty's *Report on Island Interconnected System to Interconnection with Muskrat Falls addressing Newfoundland Power*, December 17, 2014.

1 The installation of automated distribution devices is recognized as providing both reliability and  
2 efficiency benefits to customers through the more effective deployment of line crews.<sup>8</sup> The targeted  
3 deployment of automated distribution equipment, as proposed in this project, can reduce the number  
4 of customers that experience an outage. These devices also reduce outage response time and  
5 expedite the restoration of service to customers.

6 Reference: Application, Tab 4.5, *Distribution Feeder Automation*, page 9; Response to Request  
7 for Information PUB-NP-001, page 5.  
8

9 Evidence demonstrating the necessity of the capital expenditures proposed in the *Distribution*  
10 *Feeder Automation* project was provided in a detailed engineering report. In addition,  
11 Newfoundland Power responded to two RFIs on the project.

12 Reference: Application, Tab 4.5, *Distribution Feeder Automation*; Responses to Requests for  
13 Information PUB-NP-003 and NLH-NP-033.  
14

15 *Newfoundland Power's Submission*

16 Newfoundland Power submits the *Distribution Feeder Automation* project is justified in the  
17 evidence on the record of this proceeding and should be approved by the Board.

---

<sup>8</sup> In its 2014 report addressing Newfoundland Power, Liberty stated: “Based on the “cold load pick up” issues Newfoundland Power experienced restoring heavy loaded feeders during the January 2014 rotating feeder outages, it identified that installing additional feeder sectionalizing, via fourteen SCADA-controlled downstream automatic circuit reclosers on heavily loaded feeders, would minimize recurrence of that problem. Probably as importantly, these new reclosers should improve both SAIDI and SAIFI metrics for those feeders. The automatic reclosers provide better isolation of faults, more timely restoration of feeders, and more efficient use of line crews.” See Liberty’s Report on Island Interconnected System to Interconnection with Muskrat Falls addressing Newfoundland Power Inc., December 17, 2014, (page 18).

1 **6.6 General Property**

2 Consumer Advocate's Submission

3 The Consumer Advocate's Submission recommends that consideration be given to deferring the  
4 *Company Building Renovations* project. The Consumer Advocate submits that, unless required to  
5 address safety or environmental concerns, the proposed work "could readily be deferred."

6 Reference: Consumer Advocate's Submission, paragraph 25(iii).

7

8 The Consumer Advocate has not provided any evidence that these projects can readily be deferred.

9

10 Evidence

11 The Stephenville Area Office Building is Newfoundland Power's centre of operations for the  
12 Stephenville Area. A condition assessment completed in 2019 found that a number of components  
13 require refurbishment to ensure the Company can continue to provide safe and reliable service to  
14 customers in the Area. Evidence demonstrating the necessity of the capital expenditures proposed  
15 for the Stephenville Area Office Building was provided in a detailed engineering report. The  
16 project as proposed comprises the refurbishment of the Stephenville Area Office Building and the  
17 partial demolition of the Gallant Street Building. This proposal is the least-cost option of the four  
18 alternatives examined.

19 Reference: Application, Tab 5.1, *Stephenville Area Office Building Refurbishment*.

20

21 The Whitbourne District Building was originally constructed in 1978. A condition assessment  
22 completed in 2019 found that capital improvements are necessary in 2020 to replace deteriorated  
23 infrastructure, address inadequate ventilation, and provide suitable office and storage facilities.

24 Evidence demonstrating the necessity of the capital expenditures proposed for the Whitbourne

1 District Building was provided in a detailed engineering report. This proposal is the least-cost  
2 option of the two alternatives examined.

3 Reference: Application, Tab 5.2, *Whitbourne District Building Refurbishment*.

4

5 *Newfoundland Power's Submission*

6 Newfoundland Power submits that the *Company Building Renovations* project is justified in the  
7 evidence on the record of this proceeding and should be approved by the Board.

8

9 **6.7 Transportation**

10 *Consumer Advocate's Submission*

11 The Consumer Advocate's Submission states that there is no evidence to support the vehicle  
12 replacements proposed in the *Purchase Vehicles and Aerial Devices* project. The Consumer  
13 Advocate submits that such expenditures should be put on hold in the absence of an opinion from  
14 an "expert independent."

15 Reference: Consumer Advocate's Submission, paragraph 26.

16

17 There is no evidentiary basis in the Consumer Advocate's Submission to indicate that  
18 Newfoundland Power's proposed vehicle replacements are inconsistent with sound utility practice  
19 or the least-cost delivery of service to customers.



1 *Evidence*

2 In Order No. P.U. 40 (2014) on Newfoundland Power’s *2015 Capital Budget Application*, the  
3 Board requested that Newfoundland Power provide information on the vehicle replacement policies  
4 for other Canadian utilities in its next capital budget application.

5  
6 Newfoundland Power undertook a review of the vehicle replacement criteria of other Canadian  
7 utilities and filed the results in its *2016 Capital Budget Application* report *5.1 Vehicle Replacement*  
8 *Criteria*. This report compared the replacement criteria used by Newfoundland Power to those used  
9 by other Canadian electrical utilities. The report showed the current approach of the Company is:  
10 (i) consistent with current Canadian utility practice; and (ii) consistent with the least-cost delivery  
11 of service to customers.

12 Reference: Application, Schedule B, page 69.

13  
14 In Order No. P.U. 28 (2015) on Newfoundland Power’s *2016 Capital Budget Application*, the  
15 Board considered the results of Newfoundland Power’s review of current Canadian utility  
16 practice and indicated it was satisfied that the Company’s vehicle replacement criteria and  
17 practices provide an objective and sound basis for decision-making.

18  
19 The vehicle replacements proposed in the *Purchase Vehicles and Aerial Devices* project were  
20 determined on the basis of Newfoundland Power’s vehicle replacement criteria as reflected in its  
21 2015 review.

22  
23 *Newfoundland Power’s Submission*

1 Newfoundland Power submits that the *Purchase Vehicles and Aerial Devices* project is justified  
2 in the evidence on the record of this proceeding and should be approved by the Board.

3

#### 4 **6.8 General Expenses Capitalized**

5 The Consumer Advocate’s Submission recommends that the Board order a review of Hydro’s and  
6 Newfoundland Power’s approaches to capitalizing general expenses. Newfoundland Power’s  
7 Submission with respect to its capitalization practices is set out in Section 7.2 in response to  
8 Hydro’s Submission.

9

#### 10 **6.9 Capital Budget Application Procedure**

##### 11 ***6.9.1 Adequacy of Existing Board Procedures***

###### 12 *Consumer Advocate’s Submission*

13 The Consumer Advocate’s Submission states that the Board’s capital budget application procedure  
14 “is woefully inadequate and a stringent process must be put in place.”

15 Reference: Consumer Advocate’s Submission, paragraph 9.

16

###### 17 *Newfoundland Power’s Submission*

18 In Newfoundland Power’s Submission, the CBA Guidelines: (i) are effective in providing clarity  
19 and consistency in the submission of capital expenditures by a utility; (ii) provide adequate  
20 guidance with respect to the presentation of capital budget filings, including the definition of capital  
21 expenditures and the basis upon which capital expenditures may be justified; and (iii) set out a  
22 comprehensive review process to ensure expenditures are in the interests of customers.

1 Newfoundland Power notes that a separate process to review the CBA Guidelines is currently being  
2 undertaken by the Board. The Company intends to participate fully to assist the Board in  
3 conducting its review.

4

5 ***6.9.2 Completeness of the Application***

6 *Consumer Advocate's Submission*

7 The Consumer Advocate submits that the Application is, for the most part, incomplete and that the  
8 Company has not followed the Board's CBA Guidelines. The Consumer Advocate refers  
9 specifically to the classifications of capital expenditures as mandatory, normal capital, and  
10 justifiable, and submits that Newfoundland Power has not provided the required supporting  
11 information for its capital expenditures.

12 Reference: Consumer Advocate's Submission, paragraphs 31 to 33.

13

14 The Consumer Advocate further submits there is no history of maintenance or reliability and  
15 outages in the Application, but does not refer to specific capital projects in this assessment.

16 Reference: Consumer Advocate's Submission, paragraph 34.

17

18 The Consumer Advocate's Submission is incorrect and not reflective of the evidence on the record  
19 of this proceeding.

20

21 *Evidence*

22 The lone project classified as mandatory is the *PCB Bushing Phase-out* project, which is required to  
23 meet the Government of Canada's *PCB Regulations*. The lone project classified as justifiable is the  
24 Information Systems *Application Enhancements* project, which is accompanied by net present value

1 analyses and details of other tangible customer benefits. All remaining projects are classified as  
2 normal capital expenditures and include evidence of need, assessments of alternatives, historical  
3 costs, and evidence that the projects are consistent with the provision of least-cost, reliable service  
4 to customers, as applicable.

5 Reference: Application, Schedule B, pages 19-20; Application, Schedule B, Summary of 2020  
6 Capital Projects by Classification, Page iv to Page v; and Application, Tab 6.1, 2020  
7 *Application Enhancements*.  
8

9 *Newfoundland Power’s Submission*

10 Newfoundland Power submits that the Application fully complies with the CBA Guidelines,  
11 contains the necessary information on the Company’s maintenance and reliability performance, and  
12 the Consumer Advocate’s assertion is without merit.  
13

14 **7.0 RESPONSE TO HYDRO’S SUBMISSION**

15 **7.1 General**

16 Hydro’s Submission “does not object to the approval of Newfoundland Power’s 2020 CBA and  
17 the projects contained therein.”

18 Reference: Hydro’s Submission, Section 3.0.  
19

20 Newfoundland Power submits that all projects proposed in the Application are justified and  
21 should be approved by the Board.  
22

23 Hydro’s Submission addresses two issues that do not directly relate to proposed projects in 2020:  
24 (i) capitalization practices; and (ii) transmission line maintenance. Hydro’s assessment of these  
25 issues is not accompanied by evidence and is not reflective of the evidence on the record of this  
26 proceeding.

1 Sections 7.2 and 7.3 provide further detail on Newfoundland Power’s response to these issues.

2

3 **7.2 Capitalization Practices**

4 Hydro’s Submission

5 Hydro’s Submission states that Newfoundland Power’s total amount of capitalized labour has  
6 increased substantially over the last 20 years.

7 Reference: Hydro’s Submission, Section 1.1.

8

9 Hydro proposes a comprehensive review of capitalization practices, including General Expenses  
10 Capitalized (“GEC”), of both Newfoundland Power and Hydro to “determine an approach that  
11 would result in the lowest possible cost for ratepayers, taking into consideration both short- and  
12 long-term revenue requirement impacts.” Hydro’s Submission implies that a harmonized approach  
13 to capitalization in this jurisdiction is desirable.

14 Reference: Hydro’s Submission, Section 1.3.

15

16 Hydro did not file any evidence in this proceeding with respect to capitalization practices.

17

18 Evidence

19 Newfoundland Power’s capitalized labour has been reasonably consistent. The Company’s capital  
20 labour in relation to total labour for 2020 forecast is consistent with the 10-year historical average  
21 of 34%. Capital labour in relation to total capital expenditures for 2020 is consistent with the 10-  
22 year historical average of 26%. Beyond inflation, long-term changes in capitalized labour costs  
23 reflect the projects contained in the Company’s annual capital budget applications.

24 Reference: Responses to Requests for Information NLH-NP-018; Capitalization Practices  
25 Presentation, Slides 4 to 6; Application, Schedule B.

1 The Company’s adherence to accounting principles generally accepted in the United States (“U.S.  
2 GAAP”) was approved by the Board in Order No. P.U. 11 (2012). In that order, the Board stated it  
3 was satisfied the adoption of U.S. GAAP by Newfoundland Power for regulatory purposes is  
4 consistent with sound Canadian public utility practice. Newfoundland Power’s compliance with  
5 U.S GAAP is audited each year by an independent auditor. Compliance with U.S. GAAP is  
6 necessary to ensure the Company’s accounting practices remain appropriate and provide for  
7 reasonable comparison to utilities across North America by users of its financial statements. Users  
8 of Newfoundland Power’s financial statements include bondholders, credit rating agencies and the  
9 general public.

10 Reference: Response to Request for Information NLH-NP-021; Capitalization Practices  
11 Presentation, Slides 2, 3 and 12.  
12

13 There is no evidence on the record of this proceeding that a harmonized approach to capitalization  
14 practices of two utilities that follow different accounting standards is either practical or necessary.  
15

16 Newfoundland Power’s longstanding GEC calculation is consistent with Board orders and sound  
17 public utility practice. However, the Company acknowledges its GEC calculation has not been  
18 formally reviewed since 1999. If a review of Newfoundland Power’s GEC calculation was deemed  
19 to be appropriate by the Board, the Company would undertake such a review.  
20

21 *Newfoundland Power’s Submission*

22 Newfoundland Power submits that its capitalization practices reflect sound public utility practice  
23 and adherence to all applicable accounting standards and regulatory requirements. Hydro’s  
24 proposal for a comprehensive review of Hydro’s and Newfoundland Power’s capitalization  
25 practices is not supported by evidence.

1    **7.3    Transmission Line Maintenance**

2    *Hydro’s Submission*

3    Hydro’s Submission states it “has concerns over the level of analysis Newfoundland Power  
4    performs generally in its Inspection and Maintenance Practices related to wood pole transmission  
5    lines.”

6    Reference:    Hydro’s Submission, Section 2.0.

7

8    Hydro’s Submission does not specify its concerns over the level of analysis Newfoundland  
9    Power performs in its wood pole transmission line inspection and maintenance practices.

10

11   Hydro’s Submission describes a survey recently completed on the wood pole management  
12   practices and observes that Newfoundland Power does not have a test and treatment program for  
13   its poles. Hydro states that, based on the results of this survey, it believes that “a test and  
14   treatment program is sound utility practice.” Hydro states it “believes that Newfoundland Power  
15   should reassess their existing Transmission Inspection and Maintenance Practices to ensure the  
16   most accurate and comprehensive information is obtained to justify future projects and to ensure  
17   its inspection and maintenance practices are consistent with the provision of least-cost, reliable  
18   service.”

19   Reference:    Hydro’s Submission, Section 2.0.

20

21   Newfoundland Power notes the survey referenced by Hydro does not form part of the evidentiary  
22   record of this proceeding.

1 Evidence

2 Newfoundland Power provided both a summary and a copy of its *Transmission Inspection and*  
3 *Maintenance Practices* in response to an RFI. These practices are continuously reviewed to  
4 ensure they are consistent with the Company’s obligation to provide safe, least-cost, reliable  
5 service to customers.

6 Reference: Request for Information, NLH-NP-001.

7

8 Newfoundland Power acknowledges that many utilities have test and treatment programs for  
9 transmission line assets. Hydro’s Wood Pole Line Management Program (the “WPLM  
10 Program”), which introduced a wood pole test and treatment program, was initiated as a pilot  
11 study in 2003. The WPLM Program is based on a 10-year inspection cycle. Hydro has indicated  
12 that “to provide the quantitative benefits on the improvement of transmission line reliability,  
13 sufficient long-term data derived from two full inspection cycles will be required to provide  
14 adequate statistical evidence.” The second WPLM Program inspection cycle is scheduled for  
15 completion by 2023.

16 Reference: *Newfoundland and Labrador Hydro – 2020 Capital Budget Application*, Tab 11,  
17 *Wood Pole Line Management Program - Various*, page 1, line 10 and page 5,  
18 lines 6-9.

19

20 Newfoundland Power’s Submission

21 Newfoundland Power submits that it would be prudent to await the results of the second WPLM  
22 Program inspection cycle before determining whether a wood pole test and treatment program is  
23 warranted for its transmission lines.



1 **8.0 CONCLUSIONS**

2 **8.1 Capital Projects**

3 The projects proposed in the Application are necessary to: (i) respond to customer growth and  
4 changes in customer requirements; (ii) replace deteriorated, defective or obsolete equipment;  
5 (iii) respond to legislative and regulatory requirements; (iv) address safety and environmental  
6 issues; and (v) maintain or improve customer service levels and operational efficiency gains.

7

8 The Consumer Advocate has made a number of submissions challenging certain capital  
9 expenditures proposed in the Application. Each of these submissions has been addressed in this  
10 Brief of Argument.

11

12 Hydro does not object to approval of the Application, but has raised issues in relation to  
13 Newfoundland Power’s capitalization practices and transmission line maintenance. Each of  
14 these issues has also been addressed in this Brief of Argument.

15

16 The provision of service and facilities that are “reasonably safe and adequate and just and  
17 reasonable” as mandated by Section 37(1) of the *Public Utilities Act* requires the exercise of  
18 judgment. In particular, the timing, necessity and appropriateness of the investment to meet the  
19 obligation to serve on a least-cost basis involves sound engineering judgment.

1 To assist the Board in determining whether the engineering judgments reflected in the 2020  
2 Capital Budget are sound, it is submitted that there was no evidence before the Board in this  
3 proceeding that:

4 (i) contradicts the engineering judgments reflected in the capital projects presented in  
5 the 2020 Capital Budget;

6 (ii) demonstrates reasonable alternatives that were not considered by Newfoundland  
7 Power; or

8 (iii) demonstrates that not proceeding with a particular capital project is a preferable  
9 alternative.

10

11 Newfoundland Power submits that the 2020 Capital Budget contained in the Application  
12 represents the capital expenditures required to meet its statutory obligations, including the  
13 delivery of electrical power to customers at the lowest possible cost consistent with reliable  
14 service. Pursuant to Section 41 of the *Public Utilities Act*, the 2020 Capital Budget should be  
15 approved in its entirety by the Board.

16

## 17 **8.2 Rate Base**

18 Newfoundland Power has requested that the Board fix and determine the 2018 average rate base  
19 for the purpose of regulatory continuity and certainty, in the same manner as the Board has  
20 exercised this regulatory supervisory power since 1999.

21 Reference: Order No. P.U. 24 (2000-2001).

22

23 Newfoundland Power's actual average rate base for 2018 is shown in Schedule D to the  
24 Application.

1 The Board’s financial consultants, Grant Thornton, have reviewed the calculation of  
2 Newfoundland Power’s 2018 actual average rate base as shown in Schedule D to the Application  
3 and confirmed that it is accurate and in accordance with established practice and Board Orders.

4 Reference: Grant Thornton, Letter to the Board re *Newfoundland Power Inc. - 2020 Capital*  
5 *Budget Application - Grant Thornton Report*, September 6, 2019.  
6

7 Based upon the evidence before the Board, and pursuant to Section 78 of the *Public Utilities Act*,  
8 the Board should fix and determine Newfoundland Power’s average rate base for 2018 at  
9 \$1,117,341,000.

10  
11 **RESPECTFULLY SUBMITTED** at St. John’s, Newfoundland and Labrador, this 11<sup>th</sup> day of  
12 December, 2019.

13  
14   
15

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