

December 16, 2019

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

Attention: Ms. Cheryl Blundon
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: 2020 Capital Budget Application – Newfoundland and Labrador Hydro's Reply

Introduction

Newfoundland and Labrador Hydro ("Hydro") filed its 2020 Capital Budget Application ("Application") with the Board of Commissioners of Public Utilities ("Board") on August 1, 2019 seeking approval under Section 41 of the *Public Utilities Act* ("Act") of \$108.5 million in capital expenditures. In that filing, Hydro also sought approval of its 2015 and 2016 average rate base in the amounts of \$1,747,308,000 and \$1,885,849,000, respectively. Hydro withdrew the *Diesel Plant Fire Protection (2020-2021) – Charlottetown* project on October 11, 2019 due to a fire and destruction of the Charlottetown Diesel Plant on October 7, 2019. This withdrawal resulted in the removal of planned capital expenditures of \$176,500 in 2020 and \$1,691,400 in 2021. \$108.3 million in planned capital expenditures for 2020 is currently before the Board for approval.

Pursuant to the schedule set by the Board, Requests for Information ("RFIs") were issued by the Board, Newfoundland Power, the Island Industrial Customer Group, and the Consumer Advocate on September 11, 2019. Hydro's responses were filed on October 11, 2019. The Consumer Advocate, on October 25, 2019, requested a technical conference be held regarding the Application. The issues for discussion were finalized on November 18, 2019, and the technical conference was held on November 20, 2019 with all parties attending. Following the technical conference, the parties issued further RFIs on November 25, 2019 and November 28, 2019, to which Hydro provided its replies on December 5, 2019.

Hydro seeks approval of its proposed 2020 Capital Budget projects and 2015 and 2016 average rate base and, in support of that Application, makes the following submissions.

Legislative Framework

Section 37 of the *Act* requires Hydro to provide electrical service and facilities that are safe and adequate and just and reasonable. Section 41 of the *Act* also requires Hydro to obtain approval from the Board for its annual capital budget. In addition, Section 3 of the *Electrical Power Control Act, 1994* ("EPCA") requires that Hydro provide electrical service that is efficient, that is provided such that its customers have equitable access to an adequate supply of power, and that is provided at least-cost consistent with reliable service.

Hydro submits that all projects that are before the Board in this Application are required to meet Hydro's obligations under the *Act* and the *EPCA* to provide power and service to its customers that is reasonably safe and adequate and at the lowest possible cost consistent with reliable service. Hydro further submits, and will discuss in more detail later in this correspondence, that all projects proposed in the Application are justified through the inclusion of all necessary and applicable evidence.

Party Submissions

Hydro notes that the Island Industrial Customer Group stated that they would be making no comments regarding the Application. Newfoundland Power's submission included comments on one specific project within the Application; the Consumer Advocate also had some objection to that project. The Consumer Advocate took exception to one other project and raised concerns about the basis of a small number of others. The Consumer Advocate also included suggestions for justification of future projects and for improvement of the capital budget application process in general.

Project: Purchase New Mobile Substation Bishop's Falls¹

In its submission, Newfoundland Power claimed there is insufficient evidence on the record to justify the proposed purchase of an additional mobile substation at this time, pointing to the fact that Hydro has not experienced a situation where a mobile substation was required in an emergency and no substations were available. The Consumer Advocate stated that he is ". . . not convinced that a new mobile substation is needed at this time when customer rates are under severe pressure."²

Hydro and Newfoundland Power have a sharing agreement that includes Hydro's mobile substation and Newfoundland Power's four mobile substations. This agreement enables the two utilities to cooperate in optimizing usage of the five units to facilitate capital and maintenance work and in providing prompt response as emergency spares for both companies.³ Hydro completed a review of the availability of the mobile substation over the past five years. This review identified a risk of extended outages to Hydro customers during situations where an emergency spare transformer is required. Despite the cooperation agreement between Newfoundland Power and Hydro, which has been very effective in managing these assets, there have been periods over the past five years when all five units were in use and were unavailable for immediate use as an emergency spare.⁴ On average over the past five years, these periods equate to 4.1% unavailability.⁵ It is also important to note that for some of Hydro's terminal stations and transformers, only three of Newfoundland Power's four mobile substations are suitable as emergency spares, increasing the risk of unavailability of a mobile substation when needed.⁶ The proposed new mobile substation would be suitable for all terminal stations and transformers, increasing the pool of emergency spares for those locations to five.

Newfoundland Power is correct that there has not been a situation where a mobile station was required, but unavailable, during an emergency situation; however, this is not because there was no period of unavailability. The fact that an extended customer outage has not occurred is the result of not having had a situation requiring a mobile substation during any of the 1,776 station-days of mobile substation unavailability between 2014 and 2018. Hydro submits that the exposure risk of extended

¹ "2020 Capital Budget Application," Newfoundland and Labrador Hydro, vol. II, tab 9.

² Browne, Q.C., D. "Consumer Advocate's Revised Submission – Newfoundland and Labrador Hydro 2020 Capital Budget Application," December 13, 2019, at p.8/35–36.

³ "2020 Capital Budget Application," Newfoundland and Labrador Hydro, vol. II, tab 9, at p.1, s 1.0.

⁴ "2020 Capital Budget Application," Newfoundland and Labrador Hydro, vol. II, tab 9, at p. 2.

⁵ "2020 Capital Budget Application," Newfoundland and Labrador Hydro, vol. II, tab 9, at p. 4/56–57.

⁶ "2020 Capital Budget Application," Newfoundland and Labrador Hydro, vol. II, tab 9, at p. 4/58–59.

customer outages, as detailed in the Application, supports Hydro's proposed purchase of a second mobile substation to mitigate the risk to the benefit of all customers.⁷

Distribution System Upgrades (2020-2021) – Various

The Consumer Advocate submitted that it is not convinced that "replacement"⁸ of four of Hydro's distribution feeders in 2020 is warranted when customers are facing severe rate pressures. The Consumer Advocate expressed support for ". . . maintenance as opposed to replacement . . ."⁹ Hydro agrees with the principle of maintenance to avoid the necessity of large scale replacement; however, it is important to note that Hydro has not proposed replacement of the full feeder. Instead, Hydro has proposed replacement of only the components and portions of the feeder necessary to improve its reliable operation, as determined through in-depth engineering analysis. This is detailed in the project description in section 5 of the project report.¹⁰ For example, for the 8.2 km St. Anthony Line 3, Hydro proposes to replace specific portions such as the 1.2 km of conductor, 51 poles, and 4 transformers, along with the other problem specific solutions. This project is proposed to ensure the provision of reliable service; the specific feeders are identified through reliability performance analysis. Hydro considered constructing an entirely new distribution line and retiring the existing line as one of the alternatives for improving reliability on each feeder. However, as there are existing line components that are still operable such as poles, conductor, insulators, and cross arms; the construction of an entirely new line would lose the benefit of this existing and functional equipment. Constructing new requires capital spending that is unnecessary for the achievement of reliable provision of electricity. Replacement of deteriorated line components and retention of existing non-deteriorated line components reduces the chance of outages due to deteriorated line components, while retaining existing non-deteriorated line components and means Hydro can defer the cost of replacing the retained line components to their end of life.

Hydro submits that the *Distribution System Upgrades (2020-2021) – Various* project is justified in the evidence on the record and should be approved by the Board.

Upgrade Line Depots – Various

The Consumer Advocate submitted no opposition of this project if safety is its justification. As noted in the project's report¹¹ the Fogo Island and Burgeo Line Depot buildings and other site infrastructure are utilized by Hydro personnel as a base of operations and storage facility to support local transmission and distribution operations. This infrastructure is deteriorated. While intervention is necessary to maintain them in acceptable condition, Hydro proposes only to replace the specific components noted in the proposal's Project Description that are degraded to a point that replacement is the only option. This project will refurbish the deteriorated infrastructure at the Fogo Island and Burgeo Line Depots, maintaining their operational capability and extending the lifespan of the facilities.

Hydro submits that the *Upgrade Line Depots – Various* project is justified in the evidence on the record and should be approved by the Board.

Hydro notes the comments of the Consumer Advocate on the remaining projects discussed in his

⁷ Response to Request for Information NP-NLH-014, October 11, 2019.

⁸ Browne, Q.C., D. "Consumer Advocate's Revised Submission – Newfoundland and Labrador Hydro 2020 Capital Budget Application," December 13, 2019, at p.9/6.

⁹ Browne, Q.C., D. "Consumer Advocate's Revised Submission – Newfoundland and Labrador Hydro 2020 Capital Budget Application," December 13, 2019, at p.9/8–9.

¹⁰ "2020 Capital Budget Application," Newfoundland and Labrador Hydro, vol. II, tab 10.

¹¹ "2020 Capital Budget Application," Newfoundland and Labrador Hydro, vol. II, tab 18.

submission, to which he did not take exception, and will consider those recommended avenues for review and analysis in preparing future Capital Budget Applications.

Additions for Load – Increase Capacity for Labrador West

The financial schedules originally filed with the Application include a planned total value of \$111.9 million; however, the Application sought approval of \$108.5 million. The Application excluded the planned *2019–2022 Additions for Load – Increase Capacity Labrador West* project as Hydro had intended to develop a supplemental application to the 2019 Capital Budget to address the base load forecast for Labrador West. At the time the Application was filed, the technical analysis of the least-cost option for this project was incomplete and not yet available for submission. Analysis continued through fall 2019 and included an assessment of options for increasing the transmission capacity to Labrador West from the Wabush Terminal Station including Synchronous Condenser 3, currently owned by Iron Ore Company of Canada, as well as, potential upgrades to some 46 kV transmission lines and options for upgraded capacity from the Wabush Substation. Analysis of the options for the Wabush Terminal Station is ongoing. Hydro has determined that upgrades to the 46 kV transmission lines are not required at this time and expansion plans for the Wabush Substation will be included in Hydro's 2021 Capital Budget Application. Analysis of the options for the Wabush Terminal Station will continue into 2020 to ensure that any option Hydro proposes is the least-cost solution.

Capital Budget Guidelines

The Consumer Advocate's Summary and Conclusion notes that the Capital Budget Guidelines detail supporting information required to provide justification for proposed capital expenditures. The Consumer Advocate stated that "Applications without this relevant information should be considered incomplete."¹² The Consumer Advocate further claims that Hydro's Application is incomplete as aspects of supporting information has not been provided.

The Capital Budget Guidelines require utilities to provide the evidence necessary to support each proposal. The Consumer Advocate noted that when the history of annual maintenance expenses and the history of reliability and outages are not provided, the application is incomplete. This information is not listed on page 6 as a requirement for the mandatory capital or the justifiable expenditures. The specific evidence for "Normal Capital," as listed on page 6 of 11 of the Guidelines, is required "where appropriate." As Hydro noted in its response to the Consumer Advocate's RFI, CA-NLH-034, all evidence required by the Capital Budget Guidelines has been provided, where appropriate. Hydro used its experience, knowledge, and judgement when determining what information was appropriate and necessary based on the purpose and scope of the proposed project. When information is not applicable to a particular project, or where it would not assist in the Board's determination of whether a project is in keeping with the provision of least cost reliable service, the information is determined to be not appropriate and, therefore, not included. Hydro's response to CA-NLH-034 provides an example of this reasoning and conclusion.

Hydro believes that it has provided all required and appropriate data necessary to justify the projects proposed in the Application and that submission of additional data will not further inform the Board.

Conclusion

Hydro submits that the capital works for which Hydro has sought approval in the Application are necessary to ensure that Hydro can continue to provide service which is safe and adequate and just and

¹² Browne, Q.C., D. "Consumer Advocate's Revised Submission – Newfoundland and Labrador Hydro 2020 Capital Budget Application," December 13, 2019, at p.11/34.

reasonable as required by Section 37 of the Act. Hydro respectfully requests that the Board approve Hydro's Application reflective of the withdrawal of the aforementioned *Diesel Plant Fire Protection (2020-2021) – Charlottetown* proposal.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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