

- 1 **Q. (Reference Elenchus August 13, 2021 report Comments on Newfoundland Power's**
 2 **2022 Capital Budget Application, pages 13 to 15 and 32 to 36)**
 3 **Elenchus identifies 4 questions that need to be fully addressed for the Board's review**
 4 **of Newfoundland Power's 2022 CBA to be consistent with generally accepted**
 5 **prudency review standards as well as the Board's own prudency review standards.**
 6 **Elenchus concludes (pages 32 to 36): 1) Newfoundland Power has excluded**
 7 **consideration of alternatives that merit at least a preliminary assessment so has not**
 8 **considered a reasonable range of alternatives, 2) not all relevant information has been**
 9 **identified because Newfoundland Power has not identified a reasonable range of**
 10 **alternatives, 3) it is not possible to know if the proposed investments are the lowest**
 11 **cost options because a reasonable range of alternatives have not been evaluated, and**
 12 **4) the absence of NWAs as alternatives suggests that Newfoundland Power may have**
 13 **a bias to the A-J Effect by avoiding evaluation of alternatives with low capital costs.**
- 14 a) **Does Newfoundland Power agree that these 4 questions must be addressed to**
 15 **meet generally accepted, and the Board's own prudency review standards? If**
 16 **not, please explain why not.**
- 17 b) **Does Newfoundland Power agree that its 2022 CBA does not meet standards**
 18 **for prudency review? If not, why not?**
- 19 c) **If Newfoundland Power believes it has met the prudency test for some of the**
 20 **projects in its 2022 CBA, please identify the projects and explain why it**
 21 **believes it has met the prudency standard for these projects.**
- 22 d) **Why did Newfoundland Power not consider NWAs and distributed energy**
 23 **resources in its 2022 CBA? Newfoundland Power is considering new**
 24 **technologies in its electrification program. Why is it not considering new**
 25 **technologies behind the meter?**
- 26 e) **Does Newfoundland Power agree that long-lived projects have a greater risk**
 27 **of becoming stranded?**
- 28 f) **Has Newfoundland Power considered the impact on the total bill of customers**
 29 **if capital projects such as the Sandy Brook Plant Penstock Replacement**
 30 **project constitute uneconomic bypass of NLH (page 25 of Elenchus report)?**
- 31 g) **What risk premium would Newfoundland Power's shareholder expect "if it**
 32 **were determined in advance that any unrecovered costs due to stranding would**
 33 **be their responsibility (i.e., stranded costs would not be backstopped and hence**
 34 **recoverable from either ratepayers or taxpayers)" (page 36 of Elenchus report)?**
- 35
- 36 A. a) Newfoundland Power submits that the Board is responsible for determining which
 37 questions it must consider in completing a prudency review. In Order No. P.U. 13
 38 (2016), the Board expressed the effect of then-recent Supreme Court of Canada
 39 decisions on generally accepted prudency review standards.¹ The Board stated:
 40
 41 *"The Board has considered the recent Court decisions as they*
 42 *pertain to this prudence review. These decisions confirm that, in*
 43 *the absence of statutory language providing a specific direction on*

¹ See *ATCO Gas and Pipelines Ltd. v. Alberta (Utilities Commission)*, 2015 SCC 45 ("Atco Gas") and *Ontario (Energy Board) v. Ontario Power Generation Inc.*, 2015 SCC 44 ("Ontario [Energy Board]").

1 *the methodology to apply in a prudence review, the Board may*
 2 *select a methodology that is reasonable in the circumstances*
 3 *before the Board. The Board notes that there is no direction in the*
 4 *statutory framework for utility regulation in this province*
 5 *requiring that any specific methodology be used in a prudence*
 6 *review.”²*

7
 8 The Board has not selected the methodology identified in the Elenchus Report for
 9 Newfoundland Power’s *2022 Capital Budget Application* (the “Application”).

- 10
 11 b) Newfoundland Power only brings forward for approval capital projects that it
 12 considers reasonable and prudent.

13
 14 All capital projects included in the Application are consistent with the Company’s
 15 obligation to provide service in a manner consistent with the provisions of the
 16 *Public Utilities Act* (the “Act”) and the *Electrical Power Control Act, 1994*.³
 17 Section 80 of the Act restricts a utility’s recovery of capital expenditures to those
 18 that are “*reasonable and prudent*.” The Board’s *Capital Budget Application*
 19 *Guidelines* (the “Guidelines”) require a utility, among other things, to show that
 20 an expenditure is prudent and necessary to provide reasonably safe, adequate, just
 21 and reasonable service.

22
 23 The Guidelines further require a utility, among other things, to supply all relevant
 24 information pertaining to a project, to ensure that all reasonable alternatives,
 25 including deferral, have been considered, and to show that the proposed
 26 expenditure is the least-cost option. Newfoundland Power’s *2022 Capital Budget*
 27 *Application* was filed in compliance with the Guidelines. For more information
 28 on Newfoundland Power’s capital planning process, including identifying and
 29 evaluating alternatives, see responses to Requests for Information NLH-NP-042
 30 and CA-NP-075.

- 31
 32 c) See part b).

- 33
 34 d) Newfoundland Power’s approach to assessing non-wires alternatives (“NWAs”)
 35 ensures that the Company is well informed of existing and emerging NWAs.
 36 NWAs will be evaluated and implemented if they are consistent with the
 37 Company’s obligation to provide reliable service to customers at least cost.

38
 39 With respect to the projects included in the Company’s *2022 Capital Budget*
 40 *Application*, NWAs and distributed energy resources (“DERs”) were not
 41 identified as reasonable alternatives. For example, response to Request for
 42 Information CA-NP-158 part d) estimates that a solar/battery generation facility

² P.U. 13 (2016), page 39, lines 14 to 19

³ See Request for Information CA-NP-014. This statutory scheme obliges a utility to deliver power to consumers at the lowest possible cost consistent with reliable service.

1 of similar size to the Sandy Brook Plant would have a capital cost of
2 approximately \$43 million. This compares to the \$6 million cost associated with
3 the *Sandy Brook Hydro Plant Penstock Replacement* project.
4

5 Similarly, new technologies behind the meter were not identified as reasonable
6 alternatives to the projects included in the Company's *2022 Capital Budget*
7 *Application*. For additional information on Newfoundland Power's assessment of
8 NWAs, see response to Request for Information CA-NP-114.
9

- 10 e) Newfoundland Power does not agree that long-lived projects necessarily have a
11 greater risk of becoming stranded.
12
- 13 f) The *Sandy Brook Plant Penstock Replacement* project does not constitute
14 uneconomic bypass of Newfoundland and Labrador Hydro ("Hydro").⁴ The
15 economic analysis provided in *Report 1.2 – Sandy Brook Plant Penstock*
16 *Replacement, Appendix A* includes all costs necessary to evaluate the economic
17 viability of the *Sandy Brook Plant Penstock Replacement* project and the
18 continued operation of the Sandy Brook Plant. Hydro's marginal costs reflect the
19 cost that will be recoverable from Hydro's customers, including Newfoundland
20 Power, as a result of the project. The economic analysis demonstrates that the
21 cost of providing service to customers will be lower with the continued operation
22 of the Sandy Brook Plant than if the plant were no longer in service.
23
- 24 g) Newfoundland Power business risks are currently being assessed as part of its
25 ongoing *2022/2023 General Rate Application*. For a discussion of the Company's
26 business risks, and its proposed cost of capital, see *Section 3.3 Cost of Capital* of
27 that application.

⁴ See response to Request for Information CA-NP-112.