

WHENEVER. WHEREVER.  
We'll be there.



November 21, 2024

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

Attention: Jo-Anne Galarneau  
Executive Director and Board Secretary

Dear Ms. Galarneau:

**Re: Newfoundland Power's 2025 Capital Budget Application – Submission of Newfoundland Power Inc.**

Please find enclosed the original and 10 copies of the Submission of Newfoundland Power in relation to the Company's *2025 Capital Budget Application*.

If you have any questions, please contact the undersigned.

Yours truly,

A handwritten signature in blue ink that reads "Dominic Foley". The signature is written in a cursive style with a large, sweeping flourish at the end.

Dominic Foley  
Legal Counsel

Enclosures

c. Shirley A. Walsh  
Newfoundland and Labrador Hydro

Dennis Browne, K.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** an application by Newfoundland Power Inc. for an order pursuant to sections 41 and 78 of the Act:

- (a) approving its 2025 Capital Budget; and
- (b) fixing and determining its 2023 rate base.

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**SUBMISSION OF  
NEWFOUNDLAND POWER INC.**

**November 21, 2024**

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WHENEVER. WHEREVER.  
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# TABLE OF CONTENTS

	<b>Page</b>
<b>1.0</b> INTRODUCTION.....	1
<b>2.0</b> LEGISLATIVE FRAMEWORK AND COMPLIANCE MATTERS.....	2
2.1 Legislative Framework.....	2
2.2 Compliance Matters.....	3
<b>3.0</b> PROCESS.....	4
<b>4.0</b> RESPONSE TO HYDRO’S SUBMISSION.....	6
<b>5.0</b> RESPONSE TO CONSUMER ADVOCATE’S SUBMISSION.....	7
5.1 General Comments.....	7
5.2 Specific Comments.....	16
<b>6.0</b> CONCLUSIONS.....	34
6.1 Capital Expenditures.....	34
6.2 Rate Base.....	35

1 **1.0 INTRODUCTION**

2 Newfoundland Power Inc. (“Newfoundland Power” or the “Company”) filed its *2025 Capital*  
3 *Budget Application* (the “Application”) with the Board of Commissioners of Public Utilities of  
4 Newfoundland and Labrador (the “Board”) on June 28, 2024.

5  
6 The Application seeks an order of the Board, pursuant to section 41 of the *Public Utilities Act*,  
7 approving single-year 2025 capital expenditures of \$79,468,000 comprising projects and  
8 programs costing in excess of \$750,000, single-year 2025 capital expenditures of \$10,850,000  
9 comprising projects and programs costing \$750,000 and under, and multi-year capital  
10 expenditures for 2025, 2026 and 2027 totalling \$18,219,000, \$46,145,000 and \$9,816,000,  
11 respectively. Including \$19,414,000 in 2025 capital expenditures associated with multi-year  
12 projects previously approved by the Board, the 2025 Capital Budget totals \$127,951,000. The  
13 Application also seeks an order of the Board, pursuant to section 78 of the *Public Utilities Act*,  
14 fixing and determining the Company’s average rate base for 2023 in the amount of  
15 \$1,290,079,000.

16  
17 This submission will: (i) review the legislative framework under which the Application is  
18 brought; (ii) summarize the procedural history of the Application; (iii) address issues raised in  
19 the submissions of the intervenors; and (iv) conclude with Newfoundland Power’s submissions  
20 with respect to the Application.

1 **2.0 LEGISLATIVE FRAMEWORK AND COMPLIANCE MATTERS**

2 **2.1 Legislative Framework**

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

6  
7 Section 3(b) of the *Electrical Power Control Act, 1994* provides that all sources and facilities for  
8 the production, transmission and distribution of power should be managed and operated in a  
9 manner that would result in: (i) the most efficient production, transmission and distribution of  
10 power; (ii) customers having equitable access to an adequate supply of power; and (iii) power  
11 being delivered to customers at the lowest possible cost, in an environmentally responsible  
12 manner, consistent with reliable service.

13  
14 Section 41(1) of the *Public Utilities Act* requires a public utility to submit, for the Board’s  
15 approval, an annual capital budget of proposed improvements or additions to its property.  
16 Section 41(3), together with Newfoundland and Labrador Regulation 40/23, prohibits the  
17 Company from proceeding with an improvement or addition to its property in excess of  
18 \$750,000 without the Board’s prior approval. Section 54(1) obligates a public utility, under  
19 specified conditions, to supply electrical energy to premises on being required by the owner or  
20 occupier of the premises to do so.

21  
22 The principal focus of this proceeding is whether Newfoundland Power’s 2025 Capital Budget of  
23 approximately \$128 million is reasonably required to meet its statutory obligations to serve its  
24 customers.

1 Newfoundland Power submits that its 2025 Capital Budget of approximately \$128 million  
2 represents the capital expenditures which are necessary to maintain its electrical system and to  
3 continue meeting its statutory obligations.

4

## 5 **2.2 Compliance Matters**

6 The Board issued the *Capital Budget Application Guidelines (Provisional)* (the “Provisional  
7 Guidelines”) on December 20, 2021. The Provisional Guidelines provide direction on the  
8 classification, categorization, materiality and evidentiary requirements for proposed capital  
9 expenditures. The Board noted that strict adherence to all aspects of the Provisional Guidelines  
10 may not be possible, and that stakeholders should make best efforts to respect the spirit and  
11 intent of the Provisional Guidelines.<sup>1</sup> The Application complies with the Board’s direction on the  
12 Provisional Guidelines.

13

14 In Order No. P.U. 2 (2024) (the “2024 Capital Order”), the Board required a status report on  
15 2024 capital budget expenditures be filed with the Application. The Board also directed in the  
16 2024 Capital Order that Newfoundland Power file with the Application a report on how historical  
17 averages are used to determine proposed capital expenditures. The Application complies with  
18 the requirements of the 2024 Capital Order.

---

<sup>1</sup> Correspondence from the Board *Re: Provisional Capital Budget Application Guidelines*, dated December 20, 2021, page 2.

1 **3.0 PROCESS**

2 On July 17, 2024, the Board issued a schedule of dates for hearing the Application.<sup>2</sup> The  
3 schedule provided for, among other items, an introductory presentation, the submission of  
4 requests for information (“RFIs”), the filing of intervenor evidence, and written submissions.  
5 Newfoundland Power gave an introductory presentation on the Application on August 1, 2024.  
6 Board staff, Newfoundland and Labrador Hydro (“Hydro”) and the Consumer Advocate attended  
7 the presentation.

8  
9 On August 13, 2024, Newfoundland Power received 48 RFIs issued by the Board. On  
10 August 20, 2024, 28 RFIs were issued by Hydro, and 192 RFIs were issued by the Consumer  
11 Advocate. In total, 268 RFIs were received. Newfoundland Power responded to these RFIs on  
12 September 10, 2024.

13  
14 On September 20, 2024, the Consumer Advocate requested a technical conference on the  
15 Application. Newfoundland Power responded to the Consumer Advocate’s request on  
16 September 23, 2024. On September 26, 2024, the Board issued its determination that the  
17 Consumer Advocate had not demonstrated that a technical conference was necessary for a full  
18 understanding of the Application’s proposals.

19  
20 An additional 6 RFIs were received on the Application on October 8, 2024, including two RFIs  
21 issued by the Board and four RFIs issued by Hydro. On October 9, 2024, Newfoundland Power  
22 received an additional 62 RFIs issued by the Consumer Advocate. Newfoundland Power  
23 responded to these RFIs on October 22, 2024. A total of 336 enumerated RFIs have been

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<sup>2</sup> The Board issued a revised schedule of dates on September 26, 2024.

1 answered as part of this proceeding. Including individual components of RFIs, a total of more  
2 than 795 questions were posed as part of this proceeding.<sup>3</sup>

3  
4 On October 25, 2024, the Consumer Advocate submitted a request to the Board for an oral  
5 hearing on the Application. Newfoundland Power responded to the Consumer Advocate's  
6 request on October 29, 2024. On November 1, 2024, the Board issued its determination that  
7 the Consumer Advocate had not demonstrated that an oral hearing was necessary for a full  
8 understanding of the Application's proposals.

9  
10 On November 14, 2024, Hydro filed its written submission on the Application  
11 ("Hydro's Submission"). In its submission, Hydro did not object to any of the capital  
12 expenditures proposed in the Application; however, Hydro did comment on power transformers.  
13 Section 4 of this submission outlines Newfoundland Power's response to Hydro's Submission.

14  
15 On November 14, 2024, the Consumer Advocate filed its submission on the Application  
16 (the "Consumer Advocate's Submission").<sup>4</sup> Section 5 of this submission outlines Newfoundland  
17 Power's response the Consumer Advocate's Submission.

---

<sup>3</sup> Correspondence from the Board, *Newfoundland Power Inc. – 2025 Capital Budget Application – To Parties – Response to Consumer Advocate Request for Oral Hearing*, November 1, 2024 (the "Board's Response to Consumer Advocate's Request for an Oral Hearing"), page 2.

<sup>4</sup> Newfoundland Power notes that neither Hydro nor the Consumer Advocate filed expert evidence in support of their respective submissions.



1 **4.0 RESPONSE TO HYDRO’S SUBMISSION**

2 This section relates to comments made in Hydro’s Submission.

3

4 Hydro confirmed that it does not object to any of the proposed capital expenditures presented  
5 in the Application. Hydro stated that “for high value assets such as power transformers,  
6 Newfoundland Power should consider fulsome assessments of the technical viability of repair  
7 versus replacement, and economic assessment of repair alternatives.”<sup>5</sup>

8

9 Newfoundland Power currently considers repair versus replacement when assessing the  
10 potential replacement of assets. With respect to power transformers specifically, following the  
11 replacement of a power transformer, the units are assessed and, depending on the condition of  
12 the transformer, they may be used for a spare, considered for repair or scrapped.<sup>6</sup> In some  
13 instances, repairing power transformer units may not reduce the immediate risks being  
14 addressed. For example, repairing PUL-T2 and GAN-T2 instead of proactively replacing them  
15 would not reduce the immediate risks associated with the in-service failure of these  
16 transformers, nor the related risks to the power transformer fleet.<sup>7, 8</sup> Repairing these units  
17 would require them to be removed from service for 18 to 24 months requiring the long-term  
18 installation of a portable substation or spare power transformer. Due to the Company’s limited  
19 number of portable substations and spare power transformers, this would put additional  
20 pressure on the Company’s emergency response capabilities, creating an unacceptable risk to  
21 customers.

---

<sup>5</sup> Hydro’s Submission, page 1.  
<sup>6</sup> CA-NP-119, part c). See also NLH-NP-031.  
<sup>7</sup> The proactive replacement of PUL-T2 and GAN-T2 power transformers is proposed in the *Pulpit Rock Substation Power Transformer Replacement* and *Gander Substation Power Transformer Replacement* projects, respectively.  
<sup>8</sup> NLH-NP-031.

1 Newfoundland Power submits that the justification for all proposed capital expenditures in the  
2 Application, including those relating to power transformers, includes the consideration of all  
3 reasonable alternatives. When appropriate, the Company considers repair or refurbishment to  
4 extend an asset's useful life. Newfoundland Power submits that it is continuously evaluating and  
5 improving its asset management practices, including for power transformers, to ensure a  
6 balance in reliability and cost-effectiveness.<sup>9</sup>

7

## 8 **5.0 RESPONSE TO CONSUMER ADVOCATE'S SUBMISSION**

### 9 **5.1 General Comments**

10 This section addresses general comments made in the Consumer Advocate's Submission, none  
11 of which directly relate to specific projects or programs. This section provides a brief summary  
12 of the Consumer Advocate's general comments, and the Company's response to each.

13 Newfoundland Power notes that many of the general comments in the Consumer Advocate's  
14 Submission were previously raised by the Consumer Advocate during the course of the  
15 Company's *2025/2026 General Rate Application* (the "*2025/2026 GRA*") which is currently  
16 awaiting Board order.<sup>10</sup>

17

#### 18 *Newfoundland Power's Capital Spending*

19 The Consumer Advocate states that Newfoundland Power should be focusing on limiting its  
20 capital expenditures to what is absolutely necessary and fully justified.<sup>11</sup> The Consumer  
21 Advocate also expressed concern about the relationship between capital expenditures and

---

<sup>9</sup> NLH-NP-031, part c).

<sup>10</sup> For example, the issues of Newfoundland Power's management control over capital spending and the value customers place on reliability, were canvassed during the *2025/2026 GRA*. See the following filed in relation to the Company's *2025/2026 GRA*: PUB-NP-047; CA-NP-004; and Newfoundland Power's rebuttal evidence (the "Rebuttal Evidence"), page 43.

<sup>11</sup> Consumer Advocate's Submission, page 3.

1 service reliability, stating that there is an incremental cost associated with maintaining service  
2 reliability.<sup>12</sup> The Consumer Advocate further states that capital expenditures add to rate base,  
3 which adds to costs for customers, and that Newfoundland Power has added to rate base by  
4 more than inflation.<sup>13</sup>

5  
6 Newfoundland Power manages its capital expenditures through a comprehensive capital  
7 planning process. The Company's capital planning process applies sound engineering and  
8 objective data to determine which expenditures are required annually to provide customers with  
9 access to safe and reliable service at the lowest possible cost.<sup>14</sup> The capital planning process  
10 serves to balance the cost and reliability of the service provided to customers.

11  
12 Capital projects are reviewed and updated annually to reflect the latest condition assessments,  
13 forecasts of electrical system load, changes in economic factors or industry requirements, and  
14 changes in operational requirements. When it is determined that a capital expenditure may be  
15 necessary, Newfoundland Power assesses all viable alternatives for executing the required work  
16 where applicable. This includes both alternatives to the scope of a capital expenditure, such as  
17 a like-for-like replacement or upgrade, and alternatives that could result in the deferral of  
18 capital expenditures. The Application includes nine capital projects that were previously  
19 deferred or modified and are now proposed for 2025.<sup>15</sup> The Application identifies five capital  
20 projects that were planned for 2025 but have been deferred to future years.<sup>16</sup>

---

<sup>12</sup> Ibid, page 8.

<sup>13</sup> Ibid, pages 3-4.

<sup>14</sup> Application, *2025 Capital Budget Overview*, page 2.

<sup>15</sup> The Application does not include any capital projects that were planned for future years but were advanced to 2025. See Application, *2025 Capital Budget Overview*, Appendix B.

<sup>16</sup> Application, *2025 Capital Budget Overview*, page 5.

1 The Company's cost management associated with its capital expenditures has been previously  
2 recognized by the Board. In Order No. P.U. 36 (2021) Reasons for Decision, the Board stated:  
3 *"The record shows that Newfoundland Power's capital planning process is comprehensive and*  
4 *includes reasonable controls on capital spending."*<sup>17</sup> Newfoundland Power submits that it  
5 continues to focus on managing capital expenditures while maintaining service reliability for  
6 customers. The Company has provided information on the record which shows that the  
7 Company's capital investments are consistent with other Atlantic Canadian utilities. For  
8 example, from 2018 to 2022 Newfoundland Power's capital investment in transmission and  
9 distribution assets increased at a lower rate than other Atlantic Canadian Utilities.<sup>18</sup>

10  
11 Newfoundland Power disagrees with the Consumer Advocate's position that there is an  
12 incremental cost associated with maintaining current levels of reliability. In Newfoundland  
13 Power's view, maintaining current levels of service reliability is least cost for customers when  
14 compared to (i) degrading reliability or (ii) increasing reliability.<sup>19</sup> As such, customers would  
15 incur incremental costs if Newfoundland Power were to seek to materially improve or degrade  
16 system reliability.

17  
18 The Consumer Advocate states that it is not known how much customers are willing to spend  
19 on reliability.<sup>20</sup> Newfoundland Power submits that customer opinions on the value they place on  
20 reliable service can be difficult to ascertain.<sup>21</sup> While Newfoundland Power does not track  
21 customer complaints related to reliability, the Company does survey its customers to determine

---

<sup>17</sup> Order No. P.U. 36 (2021) Reasons for Decision, page 45.

<sup>18</sup> PUB-NP-014.

<sup>19</sup> CA-NP-146, part a).

<sup>20</sup> Consumer Advocate's Submission, page 7.

<sup>21</sup> CA-NP-004, part b) filed in relation to the Company's 2025/2026 GRA.

1 their overall satisfaction with its service delivery.<sup>22</sup> Customers have indicated a reasonable level  
2 of satisfaction with the Company's service delivery over the last decade.<sup>23</sup>

3  
4 Regarding the Consumer Advocate's submissions on the Company's rate base, changes in the  
5 Company's rate base primarily reflect both the change in annual capital expenditures and  
6 depreciation expense in each year. These changes are not directly related to changes in the  
7 GDP deflator. Annual capital expenditures are approved by the Board. Depreciation expense is  
8 calculated using depreciation rates, which are also approved by the Board as part of general  
9 rate applications. Changes in additions to, and deductions from, rate base also affect the  
10 calculation of the forecast average rate base and are not directly related to changes in the GDP  
11 deflator. These items include a combination of Board orders, operation of approved regulatory  
12 mechanisms and longstanding regulatory practice.

13  
14 Newfoundland Power observes that the Board's financial consultants, Grant Thornton, have  
15 confirmed that Newfoundland Power's 2023 actual average rate base is accurate and in  
16 accordance with established practice and Board Orders.<sup>24</sup>

17  
18 Newfoundland Power has a statutory obligation to provide safe, adequate and reliable service to  
19 customers at the lowest possible cost in an environmentally responsible manner. The Board has  
20 recognized that fully justified capital expenditures contribute to the delivery of least-cost service

---

<sup>22</sup> CA-NP-064.

<sup>23</sup> Overall customer satisfaction with Newfoundland Power's service averaged 86% from 2014 to 2023.  
See CA-NP-012.

<sup>24</sup> See section 6.2 for additional information.

1 to customers.<sup>25</sup> Newfoundland Power submits that all of the proposed expenditures in the  
2 Application have been fully justified, are least-cost for customers, and should be approved.

3  
4 Newfoundland Power's Asset Management Review

5 The Consumer Advocate asserts that it was not clear whether Newfoundland Power's asset  
6 management review is consistent with industry changes and best practice.<sup>26</sup> The Consumer  
7 Advocate further states the "Asset Management Study" is inadequate.<sup>27</sup>

8  
9 The Board has recognized that Newfoundland Power's asset management review is currently  
10 ongoing, and that the record includes information on changes implemented to date, major  
11 milestones, and progress updates on milestones reached.<sup>28</sup> The Board has also confirmed, on  
12 the record of this proceeding and on the record relating to the Company's *2024 Capital Budget*  
13 *Application*, that Newfoundland Power's asset management review should be addressed outside  
14 of the capital budget application process to allow for appropriate analysis, study, and  
15 consideration of all the relevant issues and perspectives.<sup>29</sup>

16  
17 The Company's asset management review, which is benchmarked against the international  
18 standard for asset management, will evaluate options to meet the information requirements  
19 contained in the Provisional Guidelines.<sup>30</sup> Through the asset management review,  
20 Newfoundland Power is evaluating its practices to ensure they are adequate and aligned with

---

<sup>25</sup> See Order No. P.U. 7 (2002-2003), in which the Board stated: "*From a regulatory perspective, efficient operations, fully justified capital expenditures, and a low cost capital structure all combine to minimize revenue requirement, and hence provide least cost electricity to ratepayers.*"

<sup>26</sup> Consumer Advocate's Submission, page 6.

<sup>27</sup> Ibid, page 13.

<sup>28</sup> Board's Response to Consumer Advocate's Request for an Oral Hearing, page 3.

<sup>29</sup> Ibid, page 3.

<sup>30</sup> CA-NP-038, part b).

1 sound utility practice. The review will also establish a solid foundation for continued asset  
2 management evolution. Newfoundland Power submits that its asset management review  
3 process is robust and comprehensive.

#### 4 Newfoundland Power's Distribution Planning

5  
6 The Consumer Advocate states that it is not possible to determine if the Application adequately  
7 addresses and assesses the needs of Newfoundland Power customers without a "Five-Year  
8 Distribution Plan."<sup>31</sup> Newfoundland Power notes that the Consumer Advocate previously raised  
9 this issue during its *2025/2026 GRA*, at which time it was fully addressed by the Company.<sup>32</sup>

10  
11 Newfoundland Power's distribution system is planned and constructed in a manner consistent  
12 with its *Distribution Planning Guidelines*, *Service and Metering Guide*, and *Schedule of Rates*,  
13 *Rules and Regulations*. The Company's *Distribution Planning Guidelines* contain information on  
14 Newfoundland Power's distribution system planning criteria, distribution automation policy, and  
15 net metering requirements. The *Distribution Planning Guidelines*, as well as the Company's  
16 existing asset management policies and practices, and forecasts for new customer connections  
17 and load growth, are used in developing the five-year Capital Plan.<sup>33</sup> The *Distribution Planning*  
18 *Guidelines* are also consistent with the *Distribution Planner's Manual* produced by the  
19 Distribution Line Asset Management Interest Group for the Centre for Energy Advancement  
20 through Technological Innovation, to which Newfoundland Power is a contributor.<sup>34</sup> The  
21 Company's current distribution planning processes further the objectives of providing safe and  
22 reliable least-cost service to customers in an environmentally responsible manner.

---

<sup>31</sup> Consumer Advocate's Submission, page 6.

<sup>32</sup> See the Rebuttal Evidence, section 4.5.2, pages 44-46 and Newfoundland Power's Final Written Submission filed in relation to the *2025/2026 GRA*, section 4.13, pages 100-102.

<sup>33</sup> CA-NP-028.

<sup>34</sup> CA-NP-205.

1 Newfoundland Power submits that its current distribution planning processes, documentation,  
2 and participation in industry organizations and with peers ensures proper planning of the  
3 distribution system. The Company further submits that development of a new five-year  
4 distribution expansion plan is not necessary to ensure Newfoundland Power's distribution  
5 system is planned and managed in a manner consistent with the *Electrical Power Control Act*,  
6 *1994*.

7

### 8 Assessment of Alternatives

9 The Consumer Advocate states that Newfoundland Power does not assess benefit to cost ratios  
10 for its projects and programs, nor use them for ranking project and programs.<sup>35</sup> The Consumer  
11 Advocate further asserts that the Company is not adequately promoting or assessing  
12 environmentally friendly non-wires alternatives.<sup>36</sup>

13

14 The Company does not agree with the Consumer Advocate's submission that "*According to*  
15 *CA-NP-017, NP does not assess benefit to cost ratios for its project and programs.*"<sup>37</sup>

16 RFI CA-NP-017 asked Newfoundland Power to identify projects and programs with a "*benefit to*  
17 *cost ratio that exceeds 3.9.*" The Company responded that in cases where a capital project is  
18 justified on an economic basis, the Company will typically complete an evaluation of alternatives  
19 using a net present value ("NPV") analysis.<sup>38</sup>

20

21 Newfoundland Power undertakes a cost benefit analysis when it is required to do so under the  
22 Provisional Guidelines. Pursuant to Part III of Appendix A of the Provisional Guidelines, a cost

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<sup>35</sup> Consumer Advocate's Submission, page 6.

<sup>36</sup> Ibid, page 7.

<sup>37</sup> Ibid, page 6.

<sup>38</sup> CA-NP-017.



1 benefit analysis is required for all projects and programs over \$1 million dollars and for all  
2 investment classifications except for Access. The Provisional Guidelines state that all calculations  
3 in the cost benefit analysis are to be made on an NPV basis. This is consistent with the  
4 Company's response to RFI CA-NP-017.

5  
6 With respect to non-wires alternatives, the Consumer Advocate provides examples of net  
7 metering customers in Nova Scotia and New Brunswick. Newfoundland Power notes that net  
8 metering in Newfoundland and Labrador is consistent with provincial policy.<sup>39</sup> The Company also  
9 notes that the net metering service option is available to customers and is advertised on its  
10 webpage, which contains pertinent information and frequently asked questions.

11  
12 *Historical Averages*

13 The Consumer Advocate asserts that Newfoundland Power uses historical average for an  
14 excessive proportion of its budget estimates.<sup>40</sup>

15  
16 As stated in *Use of Historical Averages for Budget Estimating* report, Newfoundland Power  
17 currently uses historical averages for its capital programs, which include routine capital  
18 expenditures driven by customer requests, equipment failures on the power system or those  
19 which would otherwise be identified through inspections conducted in the normal course of  
20 operations.<sup>41</sup> This methodology, which provides a budget estimate using the Company's  
21 historical expenditures and inputs from independent third parties, has remained substantially  
22 the same since 2000.<sup>42</sup>

---

<sup>39</sup> See the Newfoundland and Labrador *Net Metering Policy Framework*, July 2015.

<sup>40</sup> Consumer Advocate's Submission, page 10.

<sup>41</sup> Application, *Use of Historical Averages for Budget Estimating*, page 1.

<sup>42</sup> Ibid, page 1, footnote 4.

1 The Company does not agree with the comparison drawn by the Consumer Advocate between  
2 Newfoundland Power and Hydro with respect to the proportion of each utility's total capital  
3 budget that is estimated based on historical expenditures. Newfoundland Power classifies  
4 programs as capital investments related to high-volume, repetitive work that is required on an  
5 ongoing basis.<sup>43</sup> Hydro defines its programs as only those expenditures that are expected to  
6 continue indefinitely.<sup>44</sup> This difference in approach in classifying programs undermines the  
7 conclusion drawn by the Consumer Advocate that Newfoundland Power uses historical averages  
8 for an excessive proportion of its budget estimates.

9  
10 The Board has recognized that historical averages are commonly used by Canadian utilities to  
11 estimate capital projects, and change each year based on actual expenditures.<sup>45</sup> The Board has  
12 also noted that there is oversight and review as well as ongoing regulatory oversight associated  
13 with subsequent reporting requirements.<sup>46</sup> Newfoundland Power submits that its use of  
14 historical averaging for capital projects is reasonable and consistent with accepted Canadian  
15 utility practice, and with other Atlantic Canadian utilities. For example, Newfoundland Power has  
16 included 22 capital programs in the Application, comprising 48% of the total 2025 capital  
17 budget amount. By comparison, 50% of Maritime Electric's 2024 proposed capital expenditures  
18 related to recurring capital work similar to Newfoundland Power's capital programs. Similarly,  
19 approximately 46% of Nova Scotia Power's total expenditures outlined in its 2023 Annual  
20 Capital Expenditure Plan for transmission, distribution and general plant functions, related to  
21 routine expenditures.<sup>47</sup>

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<sup>43</sup> 2025 Capital Budget Overview, page 3.

<sup>44</sup> Hydro's 2024 Capital Budget Application, 2024 Capital Budget Overview, page 6.

<sup>45</sup> Board's Response to Consumer Advocate's Request for an Oral Hearing, page 6.

<sup>46</sup> Ibid.

<sup>47</sup> PUB-NP-023.

1 Newfoundland Power's Internal Labour Inflation Rate

2 The Consumer Advocate takes issue with the fact that Newfoundland Power uses an internal  
3 weighted-labour inflation rate for labour costs, and the GDP deflator for Canada for non-labour  
4 costs.<sup>48</sup>

5  
6 Newfoundland Power considers its internal labour inflation rate to be the most appropriate  
7 measure of inflationary increases for its labour costs.<sup>49</sup> Newfoundland Power applies this  
8 methodology in both its annual capital budgets and its general rate applications. It is a  
9 longstanding practice that provides for more accurate budget estimates for both capital and  
10 operating costs.<sup>50</sup> The Company notes that the use of an internal labour inflation rate was fully  
11 addressed as part of its *2025/2026 GRA*.<sup>51</sup>

12

13 **5.2 Specific Comments**

14 The Consumer Advocate's Submission provides nine specific recommendations for the Board to  
15 consider in the Application. This section provides an overview of each project or program  
16 (where applicable), summarizes the Consumer Advocate's comments on each recommendation,  
17 and provides the Company's response to those comments.

---

<sup>48</sup> Consumer Advocate's Submission, page 10.

<sup>49</sup> The Company's actual weighted labour rates reflect the collectively bargained wage increases for union employees and forecast progression increases in employee's wages as a result of experience. The Company uses its internal weighted labour rate increases to forecast its labour requirements for both operating and capital. See CA-NP-007 filed as part of Newfoundland Power's *2025/2026 GRA*. CA-NP-151.

<sup>51</sup> See, for example, PUB-NP-144, part a) filed as part of the Newfoundland Power's *2025/2026 GRA* which states: "*Since forecast compensation increases are not available beyond one year for non-union employees, Newfoundland Power's weighted labour inflation rate based on negotiated union wage rates is the best available estimate to forecast overall labour costs.*" See also PUB-NP-017, PUB-NP-137 and PUB-NP-146 in relation to the Company's *2025/2026 GRA*.

**1 Recommendations #1 and #2****2 Consumer Advocate's Submission**

3 The Consumer Advocate states that the Board should finalize the Provisional Guidelines, and  
4 that Newfoundland Power does not meet the requirements set out therein.<sup>52</sup> The Consumer  
5 Advocate also states that the Board should "confirm its authority to use an envelope approach"  
6 to the Company's capital budgets, and should employ a capital budget envelope based on the  
7 2024 approved capital budget outlined in Order No. P.U. 2 (2024) with an increase for inflation.

**9 Newfoundland Power's Response**

10 With respect to the Consumer Advocate's assertion that Newfoundland Power does not  
11 currently meet the requirements of the Provisional Guidelines, the Company notes that it has  
12 met the information requirements of the Provisional Guidelines when the required information is  
13 available. Consistent with section V.A.1.b of the Provisional Guidelines, where the Company is  
14 not able to provide the required information, it has provided an explanation as to why the  
15 information cannot be provided, as well as the basis upon which the proposals should be  
16 approved in its absence.

17  
18 Part III of Appendix A of the Provisional Guidelines provides that, where a utility is not able to  
19 provide required information, it should provide other available information which may be of  
20 assistance to the Board. For example, the Provisional Guidelines require that projects and  
21 programs classified as Renewal, Service Enhancement or General Plant be evaluated for risk  
22 mitigation, and that risk mitigation be calculated in conformance with an internationally  
23 recognized standard.<sup>53</sup> The Provisional Guidelines also require projects and programs be

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<sup>52</sup> Consumer Advocate's Submission, pages 4 and 13.

<sup>53</sup> Provisional Guidelines, pages 16-17.

1 provided in the form of a prioritized list with prioritization based on calculations of risk  
2 mitigation or reliability improvement.<sup>54</sup> Although Newfoundland Power is not able to provide  
3 calculations of risk management or reliability improvement, in order to comply with the spirit  
4 and intent of the Provisional Guidelines, the Company developed a methodology to provide  
5 consistency in its assessment of risks across projects and programs. This methodology uses a  
6 risk matrix where priority is determined based on assessments of probability and  
7 consequence.<sup>55</sup>

8  
9 Regarding the Consumer Advocate’s recommendation that the Board should finalize the  
10 Provisional Guidelines, Newfoundland Power notes that the Board has established a separate  
11 process for consideration of its overall capital budget approval process. The Board’s *Capital*  
12 *Budget Application Guidelines Review* (the “Guidelines Review”) was established in 2019. The  
13 Guidelines Review resulted in the development and implementation of the Provisional Guidelines  
14 in January 2022. The Guidelines Review has not concluded, and the capital budget guidelines  
15 have yet to be finalized. As noted by the Board in its reply to the Consumer Advocate’s Request  
16 for an oral hearing on the Application, it is not appropriate to “*address potential changes to the*  
17 *Guidelines in the Application as the issue should continue to be addressed in the established*  
18 *process.*”<sup>56</sup>

19  
20 The Consumer Advocate makes reference to the percentage of capital expenditures proposed  
21 by Newfoundland Power that have been approved by the Board in the past 10 years.<sup>57</sup>  
22 Newfoundland Power submits to the Board for approval only those projects and programs that

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<sup>54</sup> Ibid, page 17.

<sup>55</sup> For additional information on the Company’s risk matrix methodology, see the Application, Schedule B, page iii. See also CA-NP-037, part b) and CA-NP-039.

<sup>56</sup> Board’s Response to Consumer Advocate’s Request for an Oral Hearing, page 7.

<sup>57</sup> Consumer Advocate’s Submission, page 13.

1 are justified and least-cost for customers. The rate at which the Board approves proposed  
2 capital expenditures is indicative of Newfoundland Power’s prudent management of its capital  
3 expenditures, which serves to balance the cost and reliability of the service provided to  
4 customers.

5  
6 With respect to the Consumer Advocate’s statement that the Board should both confirm its  
7 authority to use a capital envelope and proceed to do so, Newfoundland Power submits that the  
8 Application is not the appropriate forum to consider capital budget envelopes, nor does it agree  
9 with its use. While the Board has regularly exercised its discretion to control the capital  
10 spending of utilities,<sup>58</sup> the Board has confirmed that the use of capital budget envelopes is being  
11 considered as part of the Guidelines Review.<sup>59</sup> It is therefore not appropriate to address the use  
12 of capital budget envelopes in the Application.

13  
14 Newfoundland Power has previously stated that it does not support the use of capital budget  
15 envelopes, as referenced by Midgard Consulting (“Midgard”) in the Midgard Consulting Report  
16 dated October 29, 2020.<sup>60</sup> The Company views both capital budget caps and capital budget  
17 envelopes as arbitrary limits on capital expenditures and, according to Midgard, neither are best  
18 practice in jurisdictions with cost of service regulation, such as Newfoundland and Labrador.<sup>61</sup>  
19 The Company submits that the evidence on the record of this proceeding demonstrates that the  
20 capital expenditures proposed in the Application are fully justified and it would therefore be

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<sup>58</sup> See, for example, Order No. P.U. 2 (2024) in which the Board approved 2024 capital expenditures of \$1,000,000 less than what was sought by the Company in its *2024 Capital Budget Application*.

<sup>59</sup> Board’s Response to Consumer Advocate’s Request for an Oral Hearing, page 7.

<sup>60</sup> The Midgard Consulting Report was filed by the Board on October 30, 2020, in relation to the Guidelines Review.

<sup>61</sup> CA-NP-134 filed in relation to the Company’s *2024 Capital Budget Application*.

1 inappropriate to implement any arbitrary amount of capital expenditures, which includes the use  
2 of a capital budget envelope.

3

#### 4 ***Recommendations #3***

##### 5 *Consumer Advocate's Submission*

6 The Consumer Advocate states that the Board should order Newfoundland Power to purchase  
7 and install only Advanced Metering Infrastructure ("AMI"), or "smart meters", as the Company's  
8 current inventory of Automated Meter Reading ("AMR") meters is drawn down.<sup>62</sup> The Consumer  
9 Advocate states that Newfoundland Power has "*failed to provide evidence that AMR is the least*  
10 *cost alternative for the New and Replacement programs.*"<sup>63</sup>

11

##### 12 *Newfoundland Power's Response*

13 Newfoundland Power disagrees with the Consumer Advocate's submission that it has not  
14 provided evidence that AMR is the least cost alternative for the *New Meters* and *Replacement*  
15 *Meters* programs.

16

17 Newfoundland Power's AMR Strategy was initially approved in the Company's *2013 Capital*  
18 *Budget Application*.<sup>64</sup> A strategy for accelerating the deployment of AMR meters was approved  
19 as part of the Company's *2016 Capital Budget Application*.<sup>65</sup> As a result of the accelerated  
20 deployment of AMR meters, virtually all meters in Newfoundland Power's service territory were  
21 automated by year-end 2017. This program has resulted in sustained annual operating savings

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<sup>62</sup> Consumer Advocate's Submission, page 14.

<sup>63</sup> Ibid, page 9. The Company notes that the Consumer Advocate has not made any recommendations with respect to the *New Meters* and *Replacement Meters* programs proposed in the Application.

<sup>64</sup> Order No. P.U. 31 (2012).

<sup>65</sup> Order No. P.U. 28 (2015).

1 of approximately \$2.0 million a year.<sup>66</sup> AMR technology continues to be used by electric utilities  
2 and continues to be supported by meter vendors.<sup>67</sup> As noted on the record of this proceeding,  
3 there are no capital expenditures associated with AMI included in the Application.

4  
5 The Company submits that the implementation of AMI meters at the present time does not  
6 facilitate least-cost provision of service to customers.<sup>68</sup> Newfoundland Power further submits  
7 that the Consumer Advocate's recommendation that the Company switch to installing AMI  
8 meters is oversimplified and does not take into consideration the large upfront cost to support  
9 AMI nor its incompatibilities with the Company's current field collection services technology.<sup>69</sup>

10  
11 Newfoundland Power continues to refine its plans for AMI, based on the technology's ability to  
12 contribute to the provision of least-cost, reliable service delivered in an environmentally  
13 responsible manner. Over the last decade, the Company has completed periodic analyses to  
14 determine when AMI technology may become cost effective for customers.<sup>70</sup> The Company uses  
15 the data provided by third-party consultants from these periodic reviews, as well as internal  
16 data, to model the costs and benefits associated with the implementation of AMI, including net  
17 present value analyses and payback period.<sup>71</sup>

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<sup>66</sup> CA-NP-045, part c).

<sup>67</sup> CA-NP-016, part b).

<sup>68</sup> For a discussion on the reasons for which AMI is not least-cost, see the Rebuttal Evidence pages 47-48.

<sup>69</sup> See CA-NP-138, part c) which states: "*The deployment of AMI would include the procurement and deployment of additional communications infrastructure and data management capabilities. The field collection services technology currently used to collect customer electricity usage data from Advanced Meter Reading ("AMR") meters is not compatible with today's AMI technology.*"

<sup>70</sup> CA-NP-247. See also, CA-NP-016, CA-NP-070 and CA-NP-201.

<sup>71</sup> CA-NP-247, part a). The Company has engaged Capgemini to assist with its AMI cost benefit analysis. Capgemini has consulted on AMI projects for Canadian utilities such as Manitoba Hydro, BC Hydro, Hydro One and Hydro Quebec.



1 Ongoing studies, such as rate design, load research and the potential study being conducted by  
2 Posterity Group (the "Potential Study") will help inform a business case for AMI technology.<sup>72</sup>  
3 The Potential Study will include an examination of opportunities for electrification, energy  
4 efficiency and demand response, including dynamic rate design. The Potential Study will provide  
5 an updated estimate of the potential demand response benefits of rate design, and the results  
6 of this updated estimate will be used as an input in a business case assessment for AMI  
7 technology.<sup>73</sup>

8  
9 The Company disagrees with the Consumer Advocates assertion that "*none of these studies is*  
10 *needed to undertake a fulsome review of smart meters.*"<sup>74</sup> Newfoundland Power recognizes that  
11 AMI metering technology can provide a range of benefits; however, these benefits can vary by  
12 situation and jurisdiction. For example, Newfoundland Power has already realized a large  
13 portion of the meter reading cost savings when moving from manually read meters to AMR  
14 meters.<sup>75</sup> Additionally, the potential benefits from rate design, such as time of use rates, vary  
15 by jurisdiction.<sup>76</sup> The results of the ongoing studies will help to determine whether AMI-related  
16 benefits can be realized in Newfoundland and Labrador in a manner that is least-cost for  
17 customers. Newfoundland Power submits that, until it can be determined that AMI  
18 implementation is feasible and least-cost for customers, it would not be appropriate for the  
19 Company to transition away from AMR technology.

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<sup>72</sup> Newfoundland Power and Hydro have engaged Posterity Group, an economic and engineering consulting firm, to conduct a potential study that will examine opportunities for electrification, demand response, and the energy efficiency for the Island Interconnected System.

<sup>73</sup> CA-NP-247. For additional information on the Potential Study scope of work, see CA-NP-201.

<sup>74</sup> Consumer Advocate's Submission, page 10.

<sup>75</sup> See the Rebuttal Evidence, page 47.

<sup>76</sup> CA-NP-034 filed in relation to the Company's 2025/2026 GRA.

1 **Recommendation #4, #5 and #6**

2 Project Overview

3 The Application proposes 2025 capital expenditures of \$13,402,000 for the *Extensions* program,  
4 \$5,115,000 for the *Rebuild Distribution Lines* program, and \$2,884,000 for the *Transmission*  
5 *Line Maintenance* program.

6  
7 The proposed *Extensions* program involves the construction of primary and secondary  
8 distribution lines to connect new customers to the electrical system.<sup>77</sup> Extensions to distribution  
9 lines are constructed upon requests from developers or contractors and individual customers.

10 The program also includes upgrades to the capacity of existing lines to accommodate  
11 customers’ increased electrical system loads.

12  
13 The *Rebuild Distribution Lines* program involves the replacement of deteriorated distribution  
14 structures and electrical equipment that have been identified through inspections or engineering  
15 reviews.<sup>78</sup> The *Rebuild Distribution Lines* program permits the planned correction of deficiencies  
16 identified on the distribution system that would otherwise result in customer outages.

17  
18 The *Transmission Line Maintenance* program involves the replacement of transmission line  
19 infrastructure that has failed or is at risk of failure.<sup>79</sup> The *Transmission Line Maintenance*  
20 program allows for both corrective and preventative maintenance of the Company’s  
21 transmission system, the backbone of the electrical system providing service to customers. The  
22 program also includes a component to accommodate third-party requests to relocate or replace

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<sup>77</sup> Application, Schedule B, page 17.  
<sup>78</sup> Ibid, page 24.  
<sup>79</sup> Ibid, page 88.

1 sections of transmission lines. Third-party requests typically have contributions in aid of  
2 construction, which offset capital costs.

3

4 Consumer Advocate's Submission

5 With respect to the *Extensions* program, the Consumer Advocate expresses concern with the  
6 manner in which the proposed expenditure was calculated, referencing the Company's use of  
7 historical averages and internal labour inflation rate.<sup>80</sup> The Consumer Advocate also alleges that  
8 there is no evidence to demonstrate that Newfoundland Power has taken any action to control  
9 the cost components of the *Extensions* program.

10

11 The Consumer Advocate again cites the Company's use of historical averages and internal  
12 labour inflation rate in relation to the *Rebuild Distribution Lines* program and the *Transmission*  
13 *Line Maintenance* program.<sup>81</sup> The Consumer Advocate argues that a "modest reduction" to the  
14 *Rebuild Distribution Lines* project costs would not be a threat to reliability, and similarly that a  
15 "modest reduction" to the *Transmission Line Maintenance* project costs would not be  
16 detrimental to service.<sup>82</sup>

17

18 The Consumer Advocate recommends that: (i) the 2025 budget for the *Extensions* program be  
19 set at \$12,840,000; (ii) the 2025 budget for the *Rebuild Distribution Lines* project be set at  
20 \$4,900,000; and (iii) the 2025 budget for the *Transmission Line Maintenance* program be set at  
21 \$2,700,000.<sup>83</sup>

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<sup>80</sup> Consumer Advocate's Submission, page 15.

<sup>81</sup> Ibid, pages 15-16.

<sup>82</sup> Ibid.

<sup>83</sup> Ibid.

1 Newfoundland Power’s Response

2 Newfoundland Power submits that the Consumer Advocate’s concern regarding the proportion  
3 of capital expenditures determined by historical averages and the use of the Company’s internal  
4 labour inflation rate is not reflective of the information on the record of this proceeding.

5  
6 The budgets for the *Extensions, Rebuild Distribution Lines* and *Transmission Line Maintenance*  
7 programs are based on a five-year historical average. As previously stated, Newfoundland  
8 Power’s use of historical averages for estimating budget expenditures has been in place for over  
9 two decades. Historical averages are used to forecast programs related to customer load and  
10 connection growth, third party requests and programs related to patterns of repair and  
11 replacement that are high volume. In all cases, the factors driving the work are either: (i) the  
12 number of requests received from customers, joint use partners, municipalities or government;  
13 (ii) the number of deficiencies that are identified through inspection; or (iii) the number of in-  
14 service failures that occur. There is a high level of uncertainty in these variables in advance of  
15 the budget year. The work is typically either of a mandatory nature, in light of the statutory  
16 obligation to connect new customers, or includes customer contributions to offset costs. For  
17 example, the *Extensions* program involves the connection of new customers to the electrical  
18 system, for which Newfoundland Power has a statutory obligation. These expenditures are  
19 mandatory irrespective of the methods used to estimate them.<sup>84</sup>

20  
21 The Consumer Advocate’s recommendations for a reduction in the *Extensions, Rebuild*  
22 *Distribution Lines* and *Transmission Line Maintenance* program budgets is not supportable  
23 based on the information on the record of this proceeding. All three program budgets are

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<sup>84</sup> For a discussion on why using Newfoundland Power uses a historical average methodology to determine a reasonable estimate of program expenditures for the *Extensions* program, specifically, see CA-NP-150, part a).

1 estimated using the Company's historical averaging methodology, as outlined above. Under this  
2 methodology, historical annual expenditures over the most recent five-year period are inflation-  
3 adjusted in current-year dollars.<sup>85</sup> Newfoundland Power calculates its inflationary increases  
4 using the Company's internal weighted-labour inflation rate for its labour costs, and the GDP  
5 Deflator for Canada for its non-labour costs. It applies that increase to the five-year average of  
6 adjusted costs.<sup>86</sup> As previously stated, the Company considers its internal labour inflation rate  
7 to be the most appropriate measure of inflationary increases for its labour costs.

8  
9 With respect to the *Transmission Line Maintenance* program specifically, it is appropriate to  
10 include the 2023 actual costs in the calculation of the historical average, as it reasonably  
11 reflects the annual capital work requirements for the capital program.<sup>87</sup>

12  
13 Newfoundland Power submits that historical data averaged over a relevant period of time is a  
14 reasonable way of forecasting expenditures in the budget year in light of the inherent  
15 uncertainties in the underlying drivers of the work and does not perpetuate spending at the  
16 average level in inflation-adjusted terms. Actual expenditures incurred for these programs are  
17 directly attributable to the actual work that occurs in the year and are not driven by the budget  
18 estimates.

19  
20 Overall, the 2025 *Extensions, Rebuild Distribution Lines* and *Transmission Line Maintenance*  
21 program budgets are determined consistent with the Company's longstanding historical average  
22 approach, providing for a reasonable 2025 capital budget amounts.

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<sup>85</sup> PUB-NP-022.

<sup>86</sup> Ibid.

<sup>87</sup> CA-NP-165, part b).

1 Both the *Rebuild Distribution Lines* program and the *Transmission Line Maintenance* program  
2 form part of the Company's preventative and corrective maintenance practices. Transmission  
3 lines are the backbone of the electricity system providing service to customers.<sup>88</sup> Similarly, the  
4 *Rebuild Distribution Lines* program is a cornerstone of the Company's overall distribution  
5 reliability management practices.<sup>89</sup> Good utility practice involves a structured and  
6 comprehensive approach to preventative and corrective maintenance for critical distribution and  
7 transmission assets.<sup>90</sup> Maintenance programs are intended to keep critical assets in good  
8 working order, prolong their life and reduce in-service failures. Using these practices, the  
9 Company is able to identify and correct equipment related issues and prevent customer outages  
10 before they occur. This approach minimizes unplanned work, which reduces cost.<sup>91</sup>  
11  
12 Newfoundland Power submits that the proposed 2025 expenditures associated with the  
13 *Extensions* program are required to provide equitable access to an adequate supply of power as  
14 statutorily mandated and should be approved. Newfoundland Power further submits that the  
15 proposed 2025 expenditures associated with the *Rebuild Distribution Lines* and the  
16 *Transmission Line Maintenance* programs are required to provide reliable service at the lowest  
17 possible cost, and provide equitable access to an adequate supply of power and should be  
18 approved.

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<sup>88</sup> PUB-NP-051 filed in relation to the Company's *2025/2026 GRA*.

<sup>89</sup> PUB-NP-056 filed in relation to the Company's *2025/2026 GRA*.

<sup>90</sup> PUB-NP-051 filed in relation to the Company's *2025/2026 GRA*.

<sup>91</sup> Unplanned work typically takes longer to complete and often occurs outside normal operating hours, requiring more resources and therefore resulting in a costlier response. See the Rebuttal Evidence, page 42.

**1 Recommendations #7 and #8****2 Project Overview**

3 The Application proposes 2025 capital expenditures of \$6,340,000 and \$5,623,000 for the  
4 *Replacement Transformers* and *New Transformers* programs, respectively.

5  
6 The *Replacement Transformers* program is required to replace transformers that have failed in  
7 service or have deteriorated, including transformers exhibiting severe rust and are at imminent  
8 risk of failure. The program thereby prevents or mitigates environmental hazards.<sup>92</sup>

9  
10 The *New Transformers* program includes the cost of purchasing transformers to serve customer  
11 growth.<sup>93</sup> The number of new transformers required to be installed varies annually based on  
12 customer growth and load density on sections of distribution feeders.

**13 Consumer Advocate's Submission**

14  
15 The Consumer Advocate makes numerous observations with respect to the Company's  
16 *Replacement Transformers* and *New Transformers* programs including, but not limited to, the  
17 proportion of each program budget that is attributable to additions to inventory, rather than  
18 immediate use.<sup>94</sup>

19  
20 The Consumer Advocate recommends that the Board should order Newfoundland Power to  
21 study and report on various aspects of the Company's transformer inventories and the use of  
22 historical averages for budget estimation.<sup>95</sup> The Consumer Advocate further recommends that

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<sup>92</sup> Application, Schedule B, page 35.

<sup>93</sup> Ibid, page 37.

<sup>94</sup> Consumer Advocate's Submission, page 16.

<sup>95</sup> Ibid, page 17.

1 the 2025 budgets for the *Replacement Transformers* and *New Transformers* programs be set at  
2 \$6,140,000 and \$5,432,000, respectively.<sup>96</sup>

3

#### 4 *Newfoundland Power's Response*

5 Newfoundland Power disagrees with the Consumer Advocate's recommendation that the  
6 budgets for the *Replacement Transformers* and *New Transformers* programs should be  
7 disallowed in part. The Company submits that the program budgets proposed in the Application  
8 are justified and reasonable. The *Replacement Transformers* and *New Transformers* program  
9 budgets are based on a historical average, using the same methodology as described above.<sup>97</sup>

10 Newfoundland Power has a long-standing practice of using inflation-adjusted historical  
11 expenditures for estimating its transformer requirements. In general, estimating the forecast  
12 capital budget using the historical average method mitigates variances based on inventory  
13 requirements.<sup>98</sup>

14

15 Newfoundland Power submits that maintaining a sufficient inventory of distribution transformers  
16 is essential for enabling routine corrective and preventative maintenance of the distribution  
17 system, as well as for connecting new customers to the electricity system.<sup>99</sup> This is consistent  
18 with the Company's obligation to provide a reasonably adequate level of service to  
19 customers.<sup>100</sup> The Company determines its transformer inventory based on historical usage data

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<sup>96</sup> Ibid, page 17.

<sup>97</sup> In the Company's *2025 Capital Budget Application*, the budgets for the *New Transformers* and *Replacement Transformers* programs are based on a three-year historical average rather than the five-year historical average methodology due to higher than average material costs combined with increases to meet minimum inventory requirements. See Application, *Use of Historical Averages for Budget Estimating*, page 6.

<sup>98</sup> In periods with significant cost increases above normal inflation levels, further analysis is required to develop a reasonable estimate of forecast costs for the budget year. See PUB-NP-008.

<sup>99</sup> CA-NP-161, part d).

<sup>100</sup> CA-NP-081.



1 and vendor lead times while ensuring adequate stock to provide reliable service to customers.<sup>101</sup>  
2 Newfoundland Power submits that, if it were not able to maintain a sufficient inventory of  
3 distribution transformers, then its ability to provide adequate service to customers may be  
4 detrimentally affected.

5  
6 The Consumer Advocate states that inventories of transformers were higher in August 2024 as  
7 compared to the 2023 annual average and that the number of replacement transformers has  
8 been declining, suggesting that the Company maintains higher levels of inventory than  
9 necessary.<sup>102</sup> This inference ignores the fact that Newfoundland Power maintains its inventory  
10 of transformers in aggregate and does not identify separate inventories for new transformers  
11 and replacement transformers.<sup>103</sup> As such, minimum acceptable inventory levels are considered  
12 based on the Company's *overall* transformer inventory. A transformer is not assigned as either a  
13 replacement transformer or a new transformer until it is drawn from inventory for use, based on  
14 the specific work being completed.<sup>104</sup>

15  
16 The Consumer Advocate states that Newfoundland Power should assess the appropriate level of  
17 transformer inventories taking into account, among other things, the possibilities for repair and  
18 refurbishment.<sup>105</sup> Newfoundland Power currently utilizes distribution transformer refurbishment  
19 as an economic alternative to purchasing new units.<sup>106</sup> The number of units refurbished is  
20 dependent on material availability and type of repair required.

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<sup>101</sup> CA-NP-161, part a).

<sup>102</sup> Consumer Advocate's Submission, page 16.

<sup>103</sup> CA-NP-238, part b).

<sup>104</sup> Ibid.

<sup>105</sup> Consumer Advocate's Submission, page 17.

<sup>106</sup> CA-NP-094.

1 Newfoundland Power’s annual capital budget is comprehensively reviewed by the Board each  
2 year. This process provides adequate regulatory oversight of the Company’s transformer  
3 inventory levels. The capital budget process, including the *Use of Historical Averages for Budget*  
4 *Estimations* report, also ensures regulatory oversight into the use of historical average  
5 expenditures for the Company’s *Replacement Transformers* and *New Transformers* programs.  
6 Newfoundland Power submits that the implementation of study and/or reporting requirements  
7 with respect to inventories and historical average budget estimation is not necessary to ensure  
8 the Company manages its transformer inventory to provide customers with reasonably  
9 adequate service at least-cost.

10  
11 Newfoundland Power further submits that proposed 2025 expenditures associated with the  
12 *Replacement Transformers* and *New Transformers* programs are required to provide reliable  
13 service at the lowest possible cost, and provide equitable access to an adequate supply of  
14 power and should be approved.

15  
16 **Recommendation #9**

17 Project Overview

18 The Application proposes 2025 capital expenditures of \$278,000 and 2026 capital expenditures  
19 of \$1,003,000 for the *Port Union Building Replacement* project.

20  
21 The proposed *Port Union Building Replacement* project involves the replacement of  
22 Newfoundland Power’s Port Union District Building (the “Facility”).<sup>107</sup> A new purpose-built

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<sup>107</sup> Application, Schedule B, page 134.

1 building will be constructed adjacent to the existing Facility. The existing building will be  
2 demolished upon completion of the new Facility.

3

4 Consumer Advocate's Submission

5 The Consumer Advocate states that Newfoundland Power has failed to provide evidence that  
6 the expenditures proposed in the *Port Union Building Replacement* project are justified.<sup>108</sup>

7 The Consumer Advocate notes that the cost to replace the Facility is estimated at approximately  
8 \$1.3 million, whereas a "typical house price in Port Union is under \$200,000."<sup>109</sup>

9

10 The Consumer Advocate recommends that the Board reject the *Port Union Building*  
11 *Replacement* project until the Company provides evidence justifying the associated proposed  
12 expenditures.

13

14 Newfoundland Power's Response

15 Newfoundland Power submits that the record of this proceeding, including report *5.1 Port Union*  
16 *Building Replacement* and numerous RFI responses, provides comprehensive justification for  
17 the proposed expenditures in the *Port Union Building Replacement* project.<sup>110</sup>

18

19 As stated on the record, the Facility is Newfoundland Power's centre of operations for the  
20 Bonavista area, providing service to 5,903 customers, from Bonavista in the north to Charleston  
21 in the south.<sup>111</sup> The Facility provides support for nine employees, four of whom use the Facility

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<sup>108</sup> Consumer Advocate's Submission, page 18.

<sup>109</sup> Ibid, page 17.

<sup>110</sup> See, for example, PUB-NP-037, PUB-NP-038, PUB-NP-039 and CA-NP-137 to CA-NP-142.

<sup>111</sup> CA-NP-142.

1 as their daily headquarters and five of whom use the Facility part time while completing work in  
2 the area.<sup>112</sup>

3  
4 The Company undertook an assessment of alternatives prior to proposing the replacement of  
5 the Facility. The alternatives outlined in report *5.1 Port Union Building Replacement* included  
6 replacing the Facility and refurbishing the existing Facility.<sup>113</sup> Other alternatives were considered  
7 but were determined at an early stage to not be the least cost approach to serving customers  
8 and operating the electricity system on the Bonavista peninsula.<sup>114</sup>

9  
10 The Consumer Advocate has provided no evidence on the record as to why an existing  
11 residential home is an appropriate alternative to a commercial building supporting 5,903  
12 customers. The Consumer Advocate also has not provided any evidence, expert or otherwise, of  
13 what the cost of such a residential home would be.

14  
15 Newfoundland Power submits that the Facility has numerous differentiating factors from a  
16 residential single-family home in Port Union. The Facility must have adequate parking for the  
17 nine employees who utilize it, which requires an asphalt parking lot large enough in size to  
18 accommodate the employees' vehicles. Safe access to and from the Facility is required, as are  
19 secure laydown areas for material storage.<sup>115</sup> The Facility must also be capable of  
20 accommodating the safe operation of Company vehicles such as line trucks and all-terrain  
21 vehicles. This impacts the asphalt parking lot and driveway, storm water drainage and ditching,  
22 fencing and material storage racking. Lastly, the Facility must comply with occupational health

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<sup>112</sup> Application, report *5.1 Port Union Building Replacement*, page 2.

<sup>113</sup> Ibid, page 10.

<sup>114</sup> For example, Newfoundland Power considered operating out of the Clarendville area office as an alternative to replacing the Port Union Facility. See PUB-NP-037 for further information.

<sup>115</sup> Application, report *5.1 Port Union Building Replacement*, page 8.

1 and safety regulations, which is not the case for residential homes.

2

3 The Company submits that the *Port Union Building Replacement* project has been fully justified,  
4 and that the least-cost viable alternative has been proposed. Replacing the Facility is required  
5 to replace deteriorated infrastructure, to ensure compliance with occupational health and safety  
6 regulations, and to ensure adequate facilities are available to provide safe, least-cost and  
7 reliable electrical service to customers in the Bonavista area, and should be approved.

8

## 9 **6.0 CONCLUSIONS**

### 10 **6.1 Capital Expenditures**

11 The projects and programs proposed in the Application are necessary to: (i) respond to  
12 customer growth and changes in customer requirements; (ii) replace deteriorated, deficient or  
13 failed equipment; (iii) respond to mandatory requirements; (iv) address safety and  
14 environmental issues; or (v) maintain or improve operational efficiencies and customer service  
15 levels.

16

17 Hydro does not object to any of the capital expenditures proposed in the Application. The  
18 submission of the Consumer Advocate does not provide any evidence to refute the need or  
19 justification of any project or program proposed in the Application. The record of this  
20 proceeding together with this submission have fully addressed the general and specific issues  
21 raised in the Consumer Advocate's submission.

22

23 The Company submits that its justification for proposed capital projects and programs are  
24 based on sound engineering judgments that have not been contradicted by any evidence on the  
25 record. The 2025 Capital Budget includes consideration of all reasonable alternatives and

1 demonstrates that the proposed projects and programs are necessary to maintain safe and  
2 adequate facilities, and to provide electrical service that is least cost, reliable and  
3 environmentally responsible.

4  
5 Newfoundland Power submits that pursuant to section 41 of the *Public Utilities Act*, single-year  
6 2025 capital expenditures of \$79,468,000 comprising projects and programs costing in excess  
7 of \$750,000, single-year 2025 capital expenditures of \$10,850,000 comprising projects and  
8 programs costing \$750,000 and under, and multi-year capital expenditures of \$18,219,000 in  
9 2025, \$46,145,000 in 2026 and \$9,816,000 in 2027 should be approved. Including \$19,414,000  
10 in 2025 capital expenditures associated with multi-year projects previously approved by the  
11 Board, the 2025 Capital Budget of \$127,951,000 represents the capital expenditures required in  
12 2025 to meet Newfoundland Power’s statutory obligations, including the delivery of reliable  
13 service to its customers at the lowest possible cost, in an environmentally responsible manner.

14  
15 **6.2 Rate Base**

16 Newfoundland Power has requested that the Board fix and determine the Company’s 2023  
17 average rate base. Schedule D to the Application shows Newfoundland Power’s actual average  
18 rate base for 2023.

19  
20 The Board’s financial consultants, Grant Thornton, have reviewed the calculation of  
21 Newfoundland Power’s 2023 actual average rate base and confirmed that it is accurate and in  
22 accordance with established practice and Board Orders.<sup>116</sup>

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<sup>116</sup> Grant Thornton, Letter to the Board *Re: Newfoundland Power Inc. - 2025 Capital Budget Application*, dated September 10, 2024.

1 Based upon the evidence before the Board, and pursuant to Section 78 of the *Public Utilities*  
2 *Act*, the Board should fix and determine Newfoundland Power’s average rate base for 2023 at  
3 \$1,290,079,000.

4

5 **RESPECTFULLY SUBMITTED** at St. John’s, Newfoundland and Labrador, this 21<sup>st</sup> day of  
6 November, 2024.



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