
Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**IN THE MATTER OF THE
2019 CAPITAL BUDGET APPLICATION**

**FILED BY
NEWFOUNDLAND POWER INC.**

**DECISION AND ORDER
OF THE BOARD**

ORDER NO. P.U. 35(2018)

BEFORE:

**Darlene Whalen, P.Eng., FEC
Chair and CEO**

**James Oxford
Commissioner**

**John O'Brien, FCPA, FCA, CISA
Commissioner**

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

AN ORDER OF THE BOARD

NO. P.U. 35(2018)

IN THE MATTER OF the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 (the “EPCA”) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the “Act”), as amended, and regulations thereunder; and

IN THE MATTER OF an application by Newfoundland Power Inc. for an Order pursuant to sections 41 and 78 of the *Act*:

- (a) approving a 2019 Capital Budget of \$93,304,000;
- (b) approving certain capital expenditures related to multi-year projects commencing in 2019; and
- (c) fixing and determining a 2017 rate base of \$1,092,254,000.

BEFORE:

Darlene Whalen, P. Eng., FEC
Chair and CEO

James Oxford
Commissioner

John O’Brien, FCPA, FCA, CISA
Commissioner

TABLE OF CONTENTS

I. BACKGROUND..... 1

 1. The Application..... 1

 2. Board Authority..... 1

II. PROPOSED 2019 CAPITAL BUDGET 2

 1. Overview 2

 2. Conclusion..... 3

III. 2017 AVERAGE RATE BASE..... 4

IV. ORDER..... 5

Schedule A - Single Year Projects Over \$50,000

Schedule B - Multi-Year Projects Over \$50,000

Schedule C - 2019 Capital Budget

1 **I BACKGROUND**

2
3 **1. The Application**

4
5 Newfoundland Power Inc. (“Newfoundland Power”) filed its 2019 capital budget application (the
6 “Application”) with the Board of Commissioners of Public Utilities (the “Board”) on July 13,
7 2018. In the Application Newfoundland Power requests that the Board make an order:

- 8
9 (a) approving a 2019 Capital Budget of \$93,304,000;
10 (b) approving certain capital expenditures related to multi-year projects commencing in
11 2019; and
12 (c) fixing and determining a 2017 rate base of \$1,092,254,000.

13
14 Notice of the Application, including an invitation to participate, was published on July 28, 2018.
15 Details of the Application and supporting documentation were posted on the Board’s website.

16
17 On August 9, 2018 an intervention was received from the Consumer Advocate, Dennis Browne,
18 Q.C. (the “Consumer Advocate”), indicating his intention to participate in the Application.
19 Newfoundland and Labrador Hydro (“Hydro”) advised the Board that it did not intend to
20 intervene in the Application.

21
22 On August 20, 2018 two Requests for Information (“RFIs”) were issued to Newfoundland Power
23 by the Consumer Advocate. The Board did not issue RFIs. On August 28, 2018 Newfoundland
24 Power responded to the RFIs from the Consumer Advocate.

25
26 Grant Thornton LLP (“Grant Thornton”), the Board’s financial consultant, was retained to
27 review the calculations of the 2017 average rate base. Grant Thornton filed a report on
28 September 7, 2018 and copies were provided to Newfoundland Power, the Consumer Advocate
29 and Hydro.

30
31 The Board did not receive written submissions from the Consumer Advocate.

32
33 **2. Board Authority**

34
35 Section 41 of the *Act* requires a public utility to submit an annual capital budget of proposed
36 improvements or additions to its property for approval of the Board no later than December 15th
37 in each year for the next calendar year. In addition, the utility is also required to include an
38 estimate of contributions toward the cost of improvements or additions to its property which the
39 utility intends to demand from its customers.

40
41 Subsection 41(3) prohibits a utility from proceeding with the construction, purchase or lease of
42 improvements or additions to its property without the prior approval of the Board where (a) the
43 cost of the construction or purchase is in excess of \$50,000, or (b) the cost of the lease is in
44 excess of \$5,000 in a year of the lease.

45
46 Section 78 gives the Board the authority to fix and determine the rate base for the service
47 provided or supplied to the public by the utility and also gives the Board the power to revise the
48 rate base. Section 78 also provides the Board with guidance on the elements that may be
49 included in the rate base.

II PROPOSED 2019 CAPITAL BUDGET

In accordance with the legislation, regulations and Board guidelines the Application includes a detailed explanation of each proposed expenditure, setting out a description, justification, costing methodology, and future commitments if applicable. Additional studies and reports, including detailed engineering reports, are provided in relation to a number of projects.

The Application also includes specific information required to be filed in compliance with previous Board Orders, including a status report on 2018 capital expenditures, a five-year capital plan, as well as evidence relating to deferred charges and a reconciliation of average rate base to invested capital.

1. Overview

Newfoundland Power's proposed 2019 capital budget is \$93,304,000, with estimated expenditures by asset class as follows:

<u>Asset Class</u>	<u>Budget (000s)</u>
1. Generation - Hydro	\$ 2,663
2. Generation - Thermal	8,242
3. Substations	13,039
4. Transmission	10,781
5. Distribution	40,001
6. General Property	2,630
7. Transportation	3,990
8. Telecommunications	233
9. Information Systems	6,975
10. Unforeseen Allowance	750
11. General Expenses Capitalized	<u>4,000</u>
Total	\$ 93,304

The proposed 2019 capital budget includes:

- \$17.314 million of 2019 multi-year capital expenditures previously approved in Order No. P.U. 37(2017)
- \$1.2 million for a proposed multi-year project commencing in 2019 with future expenditures of \$1.4 million in 2020 and \$0.7 million in 2021
- \$2.5 million for contributions in aid of construction from customers

The Application states that approximately 55% of the proposed 2019 capital expenditures is related to the replacement of plant and a further 19% is required to meet Newfoundland Power's obligation to serve new customers and the requirement for increased system capacity. Information Systems accounts for 8% of the proposed 2019 capital expenditures and the remaining 18% is related to general expenses capitalized, third party requirements and financial carrying costs. The Application explains that this allocation of capital expenditures is broadly consistent with Newfoundland Power's capital budgets for the past five years.

1 Expenditures related to generation, substations, transmission, distribution and information
2 systems account for \$81.7 million, or 88%, of the proposed 2019 capital budget, with distribution
3 capital expenditures comprising 43% of the budget. According to Newfoundland Power these
4 distribution capacity expenditures are primarily driven by customer requests for new connections
5 to the system and rebuilding of aged and deteriorated infrastructure. Newfoundland Power noted
6 that distribution capital expenditures in 2019 and beyond are expected to reflect reduced new
7 customer connections. The 2019 estimate of 2,593 gross new customer connections is the lowest
8 it has been in 20 years.

9
10 Newfoundland Power proposes 2019 expenditures of \$13.0 million related to substations,
11 including \$7.1 million for the refurbishment and modernization of the Lewisporte and Pepperell
12 substations. Newfoundland Power also plans to automate an additional 18 distribution feeders,
13 upgrade substation communication systems and continue its phase-out of polychlorinated
14 biphenyls from breaker and substation transformer bushings.

15
16 Generation projects account for \$10.92 million of proposed 2019 capital budget. In Order No.
17 P.U. 37(2017) the Board approved a multi-year project to purchase a new mobile generating unit
18 to replace the existing mobile gas turbine. The 2019 capital expenditures for this generation
19 project total \$7.9 million. The remaining generation expenditures relate to rehabilitation at the
20 company's thermal and hydro facilities.

21
22 In 2019 Newfoundland Power will continue with the rebuilding of the oldest, most deteriorated
23 transmission lines in its systems. Multi-year projects to rebuild transmission lines 302L on the
24 Burin Peninsula and 363L on the Baie Verte Peninsula will continue.

25
26 Projects related to information systems, transportation, general property and telecommunications
27 account for \$13.8 million of the 2019 capital budget. Significant projects proposed in these areas
28 include building renovations (\$1.4 million), ongoing replacement of the company's outage
29 management system (\$1.2 million) and human resources management system (\$1.2 million), and
30 system upgrades (\$1.3 million).

31
32 Newfoundland Power's 2019 Capital Plan shows that annual capital expenditures for 2019-2023
33 are forecast to average approximately \$106.8 million, compared to an average annual capital
34 expenditure of approximately \$97.3 million for the period 2014-2018. The increase in average
35 annual expenditures through the forecast period is due primarily to the refurbishment of older
36 assets and the Customer Service System replacement project.

37 38 **2. Conclusion**

39
40 Newfoundland Power's proposed 2019 capital budget includes 38 capital projects for which
41 approval is requested. The Board has reviewed the proposed 2019 capital projects, the reports
42 filed in support and the additional information filed by Newfoundland Power in response to
43 RFIs. The Board notes that there were no objections raised to any of the proposed projects in the
44 2019 capital budget. Based on this review, the Board finds that the projects proposed in the 2019
45 capital budget are adequately justified and are prudent, reasonable and necessary for
46 Newfoundland Power to continue to provide safe and reliable service and is satisfied that the
47 proposed capital budget for 2019 in the amount of \$93,304,000 should be approved.

1 **III 2017 AVERAGE RATE BASE**

2

3 The following table shows the calculation of the average rate base as of December 31 for 2017
4 compared with 2016:¹

Newfoundland Power Inc.		
Computation of Average Rate Base		
For The Years Ended December 31		
(\$000's)		
	2017	2016
Net Plant Investment		
Plant Investment	1,804,559	1,741,193
Accumulated Depreciation	(725,127)	(694,843)
Contributions in Aid of Construction	(38,373)	(36,094)
	<u>1,041,059</u>	<u>1,010,256</u>
Additions to Rate Base		
Deferred Pension Costs	92,017	94,775
Deferred Credit Facility Costs	110	94
Cost Recovery Deferral – Hearing Costs	341	682
Cost Recovery Deferral – Conservation	14,116	11,304
Weather Normalization Reserve	4,771	1,721
Customer Finance Programs	1,496	1,341
Demand Management Incentive Account	1,490	-
	<u>114,341</u>	<u>109,917</u>
Deductions from Rate Base		
Other Post-Employment Benefits	52,584	46,083
Customer Security Deposits	1,066	786
Accrued Pension Obligation	5,572	5,285
Accumulated Deferred Income Taxes	3,915	2,186
2016 Cost Recovery Deferral	723	1,445
	<u>63,860</u>	<u>55,785</u>
Year End Rate Base	1,091,540	1,064,388
Average Rate Base Before Allowances	1,077,964	1,046,262
Rate Base Allowances		
Materials and Supplies Allowance	6,137	6,464
Cash Working Capital Allowance	8,153	8,318
	<u>14,290</u>	<u>14,782</u>
Average Rate Base at Year End	<u>1,092,254</u>	<u>1,061,044</u>

5 Grant Thornton reviewed the calculation of the average rate base for 2017 and provided an
6 opinion that the calculation is accurate and in accordance with established practice and Board
7 Orders. Grant Thornton also reviewed the additions, deductions and allowances included in the

¹ Application, Schedule D.

1 rate base and found no discrepancies or unusual items, and that they are consistent with approved
2 Board Orders.

3
4 The Board finds that the components of Newfoundland Power's average rate base for 2017 in the
5 amount of \$1,092,254,000 should be approved.

6
7
8 **IV ORDER**

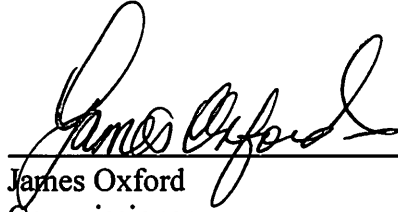
9
10 **IT IS THEREFORE ORDERED THAT:**

- 11
- 12 **1. Newfoundland Power's proposed construction and purchase of improvements or**
13 **additions to its property to be completed in 2019, as set out in Schedule A to this Order,**
14 **are approved.**
15
 - 16 **2. Newfoundland Power's proposed multi-year construction and purchase of**
17 **improvements or additions to its property to begin in 2019, as set out in Schedule B to**
18 **this Order, are approved.**
19
 - 20 **3. Newfoundland Power's 2019 Capital Budget for improvements or additions to its**
21 **property in an amount of \$93,304,000, as set out in Schedule C to this Order, is**
22 **approved.**
23
 - 24 **4. Newfoundland Power's average rate base for the year ending December 31, 2017 is**
25 **hereby fixed and determined at \$1,092,254,000.**
26
 - 27 **5. Unless otherwise directed by the Board, Newfoundland Power shall file an annual**
28 **report to the Board on its 2019 capital expenditures by March 1, 2020.**
29
 - 30 **6. Unless otherwise directed by the Board, Newfoundland Power shall provide, in**
31 **conjunction with the 2020 Capital Budget Application, a status report on the 2019**
32 **capital budget expenditures showing for each project:**
33
 - 34 **(i) the approved budget for 2019;**
 - 35 **(ii) the expenditures prior to 2019;**
 - 36 **(iii) the 2019 expenditures to the date of the application;**
 - 37 **(iv) the remaining projected expenditures for 2019;**
 - 38 **(v) the variance between the projected total expenditures and the approved**
39 **budget; and**
 - 40 **(vi) an explanation of the variance.**
 - 41
 - 42 **7. Newfoundland Power shall pay all costs and expenses of the Board incurred in**
43 **connection with the Application.**

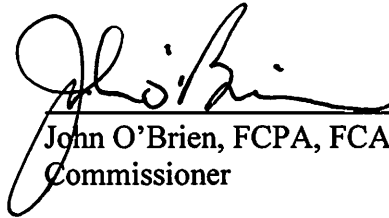
DATED at St. John's, Newfoundland and Labrador this 2nd day of October, 2018.



Darlene Whalen, P.Eng. FEC
Chair and CEO



James Oxford
Commissioner



John O'Brien, FCPA, FCA, CISA
Commissioner



Cheryl Blundon
Board Secretary

**Newfoundland Power Inc.
 2019 Capital Budget
 Single-Year Projects Over \$50,000
 (000s)**

<u>Project Description</u>	<u>2019</u>
<u>Generation - Hydro</u>	
Facility Rehabilitation	\$1,502
Rattling Brook Plant Refurbishment	1,161
Total Generation - Hydro	<u>\$2,663</u>
<u>Generation - Thermal</u>	
Facility Rehabilitation Thermal	\$ 327
Total Generation - Thermal	<u>\$ 327</u>
<u>Substations</u>	
Substations Refurbishment and Modernization	\$ 8,580
Replacements Due to In-Service Failures	3,547
PCB Bushing Phase-out	912
Total Substations	<u>\$13,039</u>
<u>Transmission</u>	
Transmission Line Rebuild	<u>\$4,422</u>
Total Transmission	<u>\$4,422</u>
<u>Distribution</u>	
Extensions	\$10,725
Meters	622
Services	3,037
Street Lighting	2,301
Transformers	6,716
Reconstruction	5,376
Rebuild Distribution Lines	3,977
Relocate/Replace Distribution Lines for Third Parties	2,442
Trunk Feeders	400
Feeder Additions for Load Growth	1,050
Distribution Reliability Initiative	600
Distribution Feeder Automation	675
Allowance for Funds Used During Construction	<u>215</u>
Total Distribution	<u>\$38,136</u>

General Property

Tools and Equipment	\$ 467
Additions to Real Property	489
Company Buildings Renovations	1,374
Physical Security Upgrades	300
Total General Property	<u>\$2,630</u>

Transportation

Purchase Vehicles and Aerial Devices	\$3,990
Total Transportation	<u>\$3,990</u>

Telecommunications

Replace/Upgrade Communications Equipment	\$ 106
Fibre Optic Network	127
Total Telecommunications	<u>\$233</u>

Information Systems

Application Enhancements	\$ 1,252
System Upgrades	1,013
Personal Computer Infrastructure	472
Shared Server Infrastructure	848
Network Infrastructure	322
Cybersecurity Upgrades	398
Total Information Systems	<u>\$4,305</u>

Unforeseen Allowance

Allowance for Unforeseen Items	\$750
Total Unforeseen Allowance	<u>\$750</u>

General Expenses Capitalized

General Expenses Capitalized	\$4,000
Total General Expenses Capitalized	<u>\$4,000</u>

Total Expenditures Single-Year Projects over \$50,000

\$74,495

Multi-Year Projects Commencing in 2019

Class	Project Description	2019	2020	2021	Total
Distribution	Distribution Reliability Initiative	\$1,200	\$1,400	\$700	\$3,300
	Total	\$1,200	\$1,400	\$700	\$3,300

Multi-Year Projects Approved in Previous Years

Class	Project Description	2019	2020
Generation Thermal	Purchase Mobile Generation	\$7,915	
Transmission	Transmission Line Rebuild	6,359	3,778
Distribution	Feeder Additions for Growth	665	
Information Systems	Microsoft Enterprise Agreement	245	245
Information Systems	Outage Management System	1,210	
Information Systems	Human Resource Management System Replacement	1,215	
	Total	\$17,609	\$4,023

**Newfoundland Power Inc.
2019 Capital Budget
(000s)**

Projects over \$50,000 to be completed in 2019	\$74,495
Multi-Year Projects over \$50,000 commencing in 2019	1,200
Multi-Year Projects Approved in Previous Years	17,609
Total 2019 Capital Budget	<u><u>\$93,304</u></u>

Newfoundland & Labrador

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
120 TORBAY ROAD, ST. JOHN'S, NL**

Website: www.pub.nl.ca

E-mail: ito@pub.nl.ca

Telephone: 1-709-726-8600

Toll free: 1-866-782-0006
