

DELIVERED BY HAND

October 26, 2004

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

Attention: Ms. Cheryl Blundon
Board Secretary

Ladies & Gentlemen:

Re: Newfoundland and Labrador Hydro 2005 Capital Budget Application

Enclosed are the original and eight copies of Newfoundland Power's Submission.

An electronic and paper copy will be forwarded to each registered intervenor directly.

We trust the enclosed are in order.

Yours very truly,

Peter Alteen
Vice President, Regulatory Affairs
and General Counsel

Enclosures

c. Maureen P. Greene, Q.C.
Newfoundland & Labrador Hydro

Joseph S. Hutchings, Q.C.
Poole Althouse

Paul Coxworthy
Stewart McKelvey Stirling Scales



Join us in the fight against cancer.

IN THE MATTER OF the *Public Utilities Act*, (the “Act”), and

IN THE MATTER OF an Application by Newfoundland and Labrador Hydro (“Hydro”) for an Order approving: (1) its 2005 capital budget pursuant to s.41 (1) of the Act; (2) its 2005 capital purchases, and construction projects in excess of \$50,000 pursuant to s.41 (3) (a) of the Act; (3) its leases in excess of \$5,000 pursuant to s. 41 (3) (b) of the Act; and (4) its estimated contributions in aid of construction for 2005 pursuant to s.41(5) of the Act and for an Order pursuant to s. 78 of the Act fixing and determining its average rate base for 2003 (the “Application”).

**SUBMISSION
OF
NEWFOUNDLAND POWER INC.**

OCTOBER 26, 2004

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A. INTRODUCTION

A.1 General

Newfoundland & Labrador Hydro-electric Corporation (“Hydro”) is entitled to approval of those proposed improvements or additions to its property for 2005 as are shown in the record before the Board to be reasonably necessary for Hydro to meet its obligations to provide electrical service on a least cost basis as required by the Act.

Newfoundland Power’s participation as an intervenor in this proceeding relates principally to its interest in Hydro’s proposal to replace its VHF mobile radio system. In Order No. P.U. 29 (2003), the Board outlined a process whereby Hydro and Newfoundland Power would cooperate in a review of their mobile radio requirements.

In addition, the issue of the appropriateness of approval of Hydro’s 2003 rate base has been raised as an issue in this proceeding.

Newfoundland Power’s submission will address these two issues.

1 **B. THE VHF MOBILE RADIO REPLACEMENT PROJECT**

2 **B.1 Background**

3 Hydro's proposal for the total replacement of its VHF mobile radio system was
4 presented in its 2003 capital budget application. In Order No. P.U. 29 (2003), the Board
5 declined to approve the project as submitted, and outlined a process whereby
6 Newfoundland Power and Hydro would cooperate in a review of their respective mobile
7 radio requirements.

8 Reference: Order No. P.U. 29 (2003), pages 33 and 34.

9
10 **B.2 Compliance with the Order**

11 The co-operative process outlined by the Board contemplated that Newfoundland
12 Power would provide Hydro with a functional description of its mobile radio
13 requirements that would enable Hydro to provide for a replacement system that would
14 be capable of meeting those requirements. The process also contemplated that,
15 following a cost analysis of the alternatives, Newfoundland Power would confirm in
16 writing, to Hydro and the Board, whether Newfoundland Power would participate in
17 Hydro's new system.

18 Reference: Order No. P.U. 29 (2003), pages 33 and 34.

1 In response to the Board's comments in Order No. P.U. 29 (2003), Hydro and
2 Newfoundland Power each engaged technical consultants to assist them in defining
3 their functional and technical requirements for a mobile radio system, and to perform
4 comparative cost analysis of the alternatives identified.

5 Reference: Transcript, October 8, 2004, page 36, line 12 to page 37, line 23.

6
7 Hydro's consultants, Custom Systems Electronics Limited, prepared a report (the
8 "Hydro Report") summarizing Hydro's participation in the consultative process,
9 describing the alternatives considered and analyzing the costs to Hydro of the
10 alternatives considered.

11 Reference: Mobile Radio System Replacement - Summary of Findings, Section G,
12 Tab 4, Application.

13
14 Newfoundland Power's consultants, Provincial Consultants Ltd., prepared a report (the
15 "Newfoundland Power Report") describing Newfoundland Power's participation in the
16 consultative process and outlined the costs to Newfoundland Power, to Hydro and the
17 total costs of the identified alternatives.

18 Reference: Response to Information Request PUB-22 NP, Attachment A.

B.3 Least Cost Approach

21 The mobile radio system alternatives reviewed by Hydro and its consultant were (1) the
22 extension of Hydro's existing system; (2) a new mobile radio system for Hydro alone;
23 (3) Hydro and Newfoundland Power on an expanded Newfoundland Power system; (4)
24 a replacement system to meet the requirements of Hydro and Department of

1 Transportation and Works; and (5) replacement of the Hydro system with Newfoundland
2 Power's participation in 2008, 2009 and 2011.

3 Reference: Mobile Radio System Replacement - Summary of Findings, Section G,
4 Tab 4, Application, Table 4, page 17;
5 Transcript, October 8, 2004, page 39, line 11 to page 40, line 12.

6
7 Newfoundland Power's VHF mobile radio system does not require replacement before
8 2011. Newfoundland Power's participation in Hydro's VHF Mobile Radio Replacement
9 Project, at a time when there is significant remaining service life in its existing mobile
10 radio system, is not in the best interest of electrical consumers in the province.

11 Reference: Response to Information Request PUB 22 NP.

12
13 Hydro is proposing that the least cost approach is for Hydro to replace its existing
14 system, include the provincial Department of Transportation and Works on the system
15 and allow for the possible integration of Newfoundland Power at a later date.

16 Reference: Mobile Radio System Replacement – Summary of Findings, Section G,
17 Tab 4, Application, page 18.

18
19 In both direct examination and cross examination Hydro's evidence was clear that the
20 Hydro proposal was least cost to customers and least cost for the electrical system.

21 Reference: Transcript, October 8, 2004, page 43, line 22 to page 44, line 1 and
22 page 63, line 9 to page 64, line 7.

1 Both Newfoundland Power and its consultant support the general conclusion that
2 Hydro's proposal is the least cost approach to replacing its existing VHF mobile radio
3 system.

4 Reference: Response to Information Request PUB 22 NP.

5

6 **B.4 Submission**

7 Newfoundland Power submits that Hydro's proposed VHF Mobile Radio Replacement
8 Project as proposed in this Application has been justified on the record before the
9 Board.

C. RATE BASE

C.1 Evidence

Hydro has requested the Board to fix and determine Hydro's rate base for 2003 in the amount of \$1,422,412,000.

Reference: Hydro Application, page 4 of 4.

The starting input in calculating the 2003 average rate base is 2002 year-end capital assets. The 2002 year-end capital asset amount was used in determining 2002 average rate base that was approved by this Board in Order No. P.U. 14 (2004).

Reference: Section H to the Application.

The average rate base for 2003 of \$1,422,412,000 was reported to the Board in Hydro's 2003 Annual Return filed on March 31, 2004. The increase in average rate base for 2003 is primarily due to Hydro's Granite Canal Project.

Reference: Finance, Prefiled Evidence, page 4, lines 22 to 25.

The Granite Canal Project was authorized by the Granite Canal Hydroelectric Project Exemption Order issued on December 14, 2000 by the Lieutenant Governor in Council under section 4.1 of the Act and section 5.2 of the *Electrical Power Control Act, 1994*.

Reference: Newfoundland and Labrador Regulation 91/00

1 The Board's Financial Consultant concluded that the 2003 average rate base amount
2 proposed by Hydro is accurate and in accordance with Board Orders and established
3 regulatory practice.

4 Reference: Information No. 1, Letter from Board's Financial Consultant, page 2 of 2.

5
6 No evidence was presented during the hearing to challenge either the components or
7 the amount of the 2003 rate base proposed by Hydro.

8
9 The Chief Financial Officer of Hydro testified that the annual approval of rate base
10 provides benefits through certainty in financial reporting to external financial
11 stakeholders.

12 Reference: Transcript, October 18, 2004, page 102, lines 10 to 20 and page 109,
13 lines 4 to 22.

14 15 **C.2 Regulatory Policy**

16 Section 78 of the Act provides the authority for the Board to approve Hydro's rate base.

17
18 The Hydro capital expenditures which are included in Hydro's rate base are made
19 pursuant to:

20 (a) approvals of the Board made under Section 41 of the Act; or

21 (b) directions of the Lieutenant-Governor in Council made under section 4.1
22 of the Act and section 5.2 of the *Electrical Power Control Act, 1994*.

1 Under the authority of Section 91 of the Act, the Board approved, in Order No.
2 P.U. 9 (2003), Hydro's issue of up to \$150 million in long-term debt. It is that
3 long-term debt that finances the capital expenditures that are the primary
4 component of rate base. Therefore, the approval of rate base on a timely basis
5 provides regulatory continuity and certainty in financial matters.

6
7 Where a utility's capital expenditures are made under the authority of the Act and
8 the *Electrical Power Control Act, 1994* and the long-term debt that financed those
9 expenditures was issued with Board approval, the Board should approve the
10 resulting changes to the utility's rate base. It is reasonable that the holders of the
11 debt know with certainty, on a timely basis, that the 2003 capital expenditures
12 they have financed has been fully and finally admitted into rate base by the
13 Board. And annual approval of the previous year's rate base can provide that
14 certainty.

15
16 The effect of delaying approval of annual rate base until the following general rate
17 proceeding ("GRP") will only serve to increase the breadth of the issues to be dealt with
18 at a GRP and unnecessarily increase the complexity of such proceedings. Only where
19 reasonable cause for delaying the approval of annual rate base until the next GRP have
20 been demonstrated is delay in approval warranted.

C.3 Submission

Newfoundland Power submits that annual reviews and approvals of rate base are appropriate.

In the absence of evidence warranting changes to, or delay in approving, Hydro's 2003 average rate base, Newfoundland Power submits that the Board should approve Hydro's 2003 rate base.

RESPECTFULLY SUBMITTED this 26th day of October, 2004.

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