

1 **Q. If Newfoundland Power Inc. is not in a position at the present time to advise the**  
2 **Board whether the design and installation methods used in the Michigan penstock**  
3 **project would be suitable for the Rattling Brook penstock project, on what basis**  
4 **does it seek immediate approval to expend approximately 11.7 million on the**  
5 **Rattling Brook penstock in the manner as contemplated?**

6  
7 **A. 1.0 General**  
8

9 There is no reasonable justification to employ the design and installation methods used in  
10 Upper Peninsula Power Company's 2001 Victoria Dam penstock replacement for  
11 Newfoundland Power's proposed Rattling Brook penstock replacement.  
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### 13 **2.0 Regulatory Oversight of Capital Expenditure** 14

15 Newfoundland Power is required by Section 41 (1) of the *Public Utilities Act* (the "Act")  
16 to submit an annual capital budget to the Board for its approval not later than December  
17 15<sup>th</sup> in each year for the next calendar year. The capital budgets submitted to the Board  
18 for its approval by Newfoundland Power are based on its best estimates of the costs of the  
19 proposed improvements and additions to its property.  
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21 In most instances, it is not practical to complete all detailed engineering of capital  
22 projects prior to obtaining the Board's approval to proceed with the work. Further, much  
23 of the work is performed by contractors chosen by competitive tender. Accordingly,  
24 matters such as detailed work methods and final prices are necessarily unavailable at the  
25 time of budgeting.  
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27 For these reasons, the annual capital budget submitted for the Board's approval under  
28 Section 41 of the Act is based on estimates.  
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30 Many components of Newfoundland Power's capital budget can vary significantly due to  
31 a variety of factors, including commodity prices and other market dynamics.  
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33 Variances of the actual expenditures from the estimates on which the capital budget is  
34 based are within the contemplation of Section 41 of the Act. Section 41 (3) requires that  
35 the utility submit a report to the Board on its actual capital expenditures for the prior year  
36 not later than April 1<sup>st</sup>. The report must include an explanation of expenditure variances.  
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### 38 **3.0 Basis for Approval** 39

40 The existing Rattling Brook penstock is at the end of its life and requires replacement to  
41 ensure the safe and reliable operation of the plant into the future.  
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43 Accordingly, it is Newfoundland Power's position that the Board should approve the  
44 replacement of the Rattling Brook penstock as part of Newfoundland Power's 2007  
45 capital budget.  
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1           The statutory framework of Section 41 of the Act requires Newfoundland Power to  
2           estimate the cost of replacement of the penstock and submit it to the Board.

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4           The \$11.7 million replacement cost estimate is based on current market conditions and  
5           local experience, including currently ongoing projects in the Province. In addition, the  
6           estimate is based on proven design and installation methods that are currently widely  
7           used in the industry.