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*Newfoundland & Labrador*

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

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**IN THE MATTER OF THE  
2017 CAPITAL BUDGET APPLICATION**

**FILED BY  
NEWFOUNDLAND POWER INC.**

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**DECISION AND ORDER  
OF THE BOARD**

**ORDER NO. P.U. 39(2016)**

---

**BEFORE:**

**Andy Wells  
Chair and Chief Executive Officer**

**Darlene Whalen, P.Eng.  
Vice-Chair**

**Dwanda Newman, LL.B.  
Commissioner**

**James Oxford  
Commissioner**

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

**AN ORDER OF THE BOARD**

**NO. P.U. 39(2016)**

**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 2017 Capital Budget of \$89,411,000;
- (b) approving certain capital expenditures related to multi-year projects commencing in 2017; and
- (c) fixing and determining a 2015 rate base of \$1,019,082,000.

**BEFORE:**

Andy Wells  
Chair & Chief Executive Officer

Darlene Whalen, P. Eng  
Vice-Chair

Dwanda Newman, LL.B  
Commissioner

James Oxford  
Commissioner

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1    **I        BACKGROUND**

2  
3    **1.       The Application**

4  
5    Newfoundland Power Inc. (“Newfoundland Power”) filed its 2017 Capital Budget Application  
6    (the “Application”) with the Board of Commissioners of Public Utilities (the “Board”) on July  
7    15, 2016. In the Application Newfoundland Power requests that the Board make an Order:

- 8  
9       (a)    approving a 2017 Capital Budget of \$89,411,000;  
10       (b)    approving certain capital expenditures related to multi-year projects commencing in  
11            2017; and  
12       (c)    fixing and determining a 2015 rate base of \$1,019,082,000.

13  
14    In accordance with the legislation, regulations and Board guidelines the Application includes a  
15    detailed explanation of each proposed expenditure, setting out a description, justification, costing  
16    methodology and future commitments, if applicable. Additional studies and reports, including  
17    detailed engineering reports, are provided in relation to a number of projects.

18  
19    In compliance with previous Board Orders the Application also includes specific information  
20    required to be filed, including a status report on 2016 capital expenditures, a five-year capital  
21    plan, as well as evidence relating to deferred charges and a reconciliation of average rate base to  
22    invested capital.

23  
24    **2.       Board Authority**

25  
26    Section 41 of the *Act* requires a public utility to submit an annual capital budget of proposed  
27    improvements or additions to its property for approval of the Board no later than December 15<sup>th</sup>  
28    in each year for the next calendar year. In addition, the utility is also required to include an  
29    estimate of contributions toward the cost of improvements or additions to its property which the  
30    utility intends to demand from its customers.

31  
32    Subsection 41(3) prohibits a utility from proceeding with the construction, purchase or lease of  
33    improvements or additions to its property without the prior approval of the Board where (a) the  
34    cost of the construction or purchase is in excess of \$50,000, or (b) the cost of the lease is in  
35    excess of \$5,000 in a year of the lease.

36  
37    Section 78 gives the Board the authority to fix and determine the rate base for the service  
38    provided or supplied to the public by the utility and also gives the Board the power to revise the  
39    rate base. Section 78 also provides the Board with guidance on the elements that may be  
40    included in the rate base.

41  
42    **3.       Application Process**

43  
44    Notice of the Application, including an invitation to participate, was published on July 27, 2016.  
45    Details of the Application and supporting documentation were posted on the Board’s website.

46  
47    An intervention was received on August 8, 2016 from the Consumer Advocate, Thomas Johnson.  
48    On August 10, 2016 Newfoundland and Labrador Hydro (“Hydro”) advised the Board that it did  
49    not intend to intervene at that time but reserved the right to seek leave to intervene should

1 something arise that is of subject matter upon which Hydro's perspective can be of assistance to  
 2 the Board. Hydro also advised that, in light of discussions with Newfoundland Power regarding  
 3 the system benefits of the Tors Cove Hydro Plant Refurbishment proposal, Hydro supports  
 4 Newfoundland Power's application for this project.

5  
 6 On August 12, 2016 Requests for Information ("RFIs") were issued to Newfoundland Power by  
 7 the Board, which were answered by Newfoundland Power on August 17, 2016.

8  
 9 The Consumer Advocate advised the Board on August 12, 2016 that he would not be issuing  
 10 RFIs or making submissions in relation to the Application.

11  
 12 Grant Thornton LLP ("Grant Thornton"), the Board's financial consultants, was retained to  
 13 review the calculations of the 2015 average rate base. Grant Thornton filed a report on August  
 14 29, 2016 and copies were provided to Newfoundland Power, the Consumer Advocate and Hydro.

15  
 16 Hydro advised on August 31, 2016 that it did not have any comments on the Application.  
 17 Newfoundland Power did not file a final submission.

## 18 **II PROPOSED 2017 CAPITAL BUDGET**

### 19 **1. Overview**

20  
 21 Newfoundland Power's proposed 2017 capital budget is \$89,411,000. The estimated  
 22 expenditures by asset class are as follows:  
 23  
 24

| <u>Asset Class</u>               | <u>Budget (000s)</u>    |
|----------------------------------|-------------------------|
| 1. Generation - Hydro            | \$ 3,745                |
| 2. Generation - Thermal          | 234                     |
| 3. Substations                   | 16,593                  |
| 4. Transmission                  | 6,711                   |
| 5. Distribution                  | 47,034                  |
| 6. General Property              | 1,502                   |
| 7. Transportation                | 3,456                   |
| 8. Telecommunications            | 98                      |
| 9. Information Systems           | 5,288                   |
| 10. Unforeseen Allowance         | 750                     |
| 11. General Expenses Capitalized | 4,000                   |
| <b>Total</b>                     | <b><u>\$ 89,411</u></b> |

### 25 **2. Evidence and Submissions**

26  
 27 Newfoundland Power provided detailed information supporting the overall capital budget for  
 28 2017 as well as the proposed purchase and construction of improvements or additions to its  
 29 property. The supporting information for each of the projects is comprehensive and consistent  
 30 with the level of information filed in recent capital budget applications and in accordance with  
 31 the Board's Capital Budget Guidelines.

1 The Application proposes a 2017 capital budget in the amount of \$89,411,000, which includes an  
2 estimated amount of \$1,500,000 in contribution in aid of construction and expenditures approved  
3 as multi-year expenditures in Order Nos. P.U. 40(2014) and P.U. 28(2015), related to  
4 Newfoundland Power's 2015 and 2016 capital budgets. The Application states that  
5 approximately 59% of the proposed 2017 capital expenditures is related to the replacement of  
6 plant and a further 26% is required to meet Newfoundland Power's obligation to serve new  
7 customers and meet the requirement for increased system capacity. The remaining 15% of  
8 forecast expenditures is related to information systems, general expenses capitalized, third party  
9 requirements and financial carrying costs. This allocation of capital expenditures is consistent  
10 with Newfoundland Power's capital budgets for the past five years.  
11

12 As in previous years, distribution capital expenditures account for the greatest percentage of  
13 overall expenditures, at \$47.0 million, or 53% of the proposed 2017 capital budget. According to  
14 Newfoundland Power these expenditures are primarily driven by customer requests for new  
15 connections to the system and rebuilding of aged and deteriorated infrastructure. Newfoundland  
16 Power advises that in 2017 it will complete the upgrading of its metering infrastructure to 100%  
17 automatic meter reading (AMR).  
18

19 To address customer load growth Newfoundland Power plans to install new power transformers  
20 at the Chamberlains substation to serve customers in the Conception Bay South and Paradise  
21 areas. Construction will also be completed in 2017 on a new distribution feeder originating from  
22 Chamberlains substation.  
23

24 Newfoundland Power will also continue to rebuild its oldest, most deteriorated transmission  
25 lines; specifically transmission line 32L which operated between Ridge Road Substation and  
26 Oxen Pond Substation in St. John's, and transmission line 41L which operates between  
27 Carbonear Substation and Heart's Content Substation. The two-year project which began in 2016  
28 to rebuild the transmission line 57L operating between the Bay Roberts and Harbour Grace  
29 substations is also planned to be completed.  
30

31 According to the 2017 Capital Plan annual capital expenditures for the next five years (2017-  
32 2021) are forecast to average approximately \$96.1 million, with a low of \$89.4 million in 2017  
33 and a high of \$104.8 million in 2021. Forecast requirements include additional power  
34 transformers due to forecast load growth, new transmission lines on the northeast Avalon  
35 Peninsula, replacement of Topsail penstock, new mobile generation, gas turbine refurbishment  
36 and the replacement of important information technology such as Outage Management and  
37 Customer Service systems. Newfoundland Power states that the replacement of plant has been,  
38 and will continue to be, the dominant driver of its planned capital expenditures, accounting for  
39 approximately 57% of planned expenditures from 2017 through 2021. Over the same period  
40 capital expenditures related to customer and load growth account for 24% of planned capital  
41 expenditures.  
42

### 43 **3. Board Findings** 44

45 The Board has reviewed the evidence filed in support of the proposed 2017 capital budget and  
46 each of the proposed capital expenditures in excess of \$50,000. The Board notes that, while  
47 Newfoundland Power's capital spending level is trending upward, the evidence shows that the  
48 inflation-adjusted capital expenditures forecast for the period 2017-2021 are similar to that  
49 experienced for the period 2012-2016. In light of the age of the assets and uncertainties

1 associated with customer and load growth the Board is satisfied that Newfoundland Power's  
2 approach to planning and management of its annual capital programs and expenditures is  
3 responsible and consistent with its mandate to provide least-cost reliable service.

4  
5 The Board notes that no concerns were expressed to the Board in relation to Newfoundland  
6 Power's proposed 2017 Capital Budget. Based on the evidence the Board is satisfied that  
7 Newfoundland Power has demonstrated that the proposed capital expenditures are necessary to  
8 maintain its assets and respond to customer growth and requirements. The Board finds that the  
9 proposed purchases and construction projects in excess of \$50,000, including the multi-year  
10 projects proposed to start in 2017, are prudent, reasonable and necessary for Newfoundland  
11 Power to continue to provide safe and reliable service and should be approved. The Board also  
12 finds that the proposed total capital budget for 2017 is prudent and reasonable and will,  
13 therefore, approve Newfoundland Power's 2017 Capital Budget in the amount of \$89,411,000.

1 **III 2015 AVERAGE RATE BASE**

2  
3 The following table shows the calculation of the average rate base as of December 31 for 2015  
4 compared with 2014:<sup>1</sup>

|   | (000s)             |                  |
|---|--------------------|------------------|
|   | <u>2015</u>        | <u>2014</u>      |
| <b>Net Plant Investment</b>                       |                    |                  |
| Plant Investment                                  | \$1,665,762        | \$1,592,616      |
| Accumulated Amortization                          | (668,641)          | (645,826)        |
| Contributions in Aid of Construction              | <u>(34,238)</u>    | <u>(33,701)</u>  |
|   | 962,883            | 913,089          |
| <b>Additions to Rate Base</b>                     |                    |                  |
| Deferred Pension Costs                            | 98,829             | 103,939          |
| Credit Facility Costs                             | 56                 | 72               |
| Cost Recovery Deferral – Seasonal/TOD Rates       | 49                 | 68               |
| Cost Recovery Deferral – Hearing Costs            | -                  | 322              |
| Cost Recovery Deferral – Regulatory Amortizations | -                  | 1,107            |
| Cost Recovery Deferral – 2012 Cost of Capital     | -                  | 588              |
| Cost Recovery Deferral – 2013 Revenue Shortfall   | -                  | 1,126            |
| Cost Recovery Deferral – Conservation             | 7,463              | 4,937            |
| Customer Finance Programs                         | <u>1,211</u>       | <u>1,136</u>     |
|   | 107,608            | 113,295          |
| <b>Deductions from Rate Base</b>                  |                    |                  |
| Weather Normalization Reserve                     | (4,411)            | 1,640            |
| Other Post Employment Benefits                    | 39,208             | 32,435           |
| Customer Security Deposits                        | 1,268              | 660              |
| Accrued Pension Obligation                        | 4,955              | 4,635            |
| Accumulated Deferred Income Taxes                 | 1,268              | 2,529            |
| Excess Earnings                                   | 49                 | 49               |
| Demand Management Incentive Account               | <u>-</u>           | <u>446</u>       |
|   | 42,355             | 42,394           |
| <b>Year End Rate Base</b>                         | 1,028,136          | 983,900          |
| <b>Average Rate Base Before Allowances</b>        | 1,006,063          | 952,907          |
| <b>Rate Base Allowances</b>                       |                    |                  |
| Materials and Supplies Allowance                  | 6,280              | 5,619            |
| Cash Working Capital Allowance                    | <u>6,739</u>       | <u>6,404</u>     |
| <b>Average Rate Base at Year End</b>              | <u>\$1,019,082</u> | <u>\$964,930</u> |

5 Grant Thornton reviewed the calculation of the average rate base for 2015 and provided an  
6 opinion that the calculation is accurate and in accordance with established practice and previous  
7 Board Orders. Grant Thornton also reviewed the additions, deductions and allowances included  
8 in the rate base and found no discrepancies or unusual items or non-compliance with Board  
9 Orders.

<sup>1</sup> Source: Application, Schedule D.



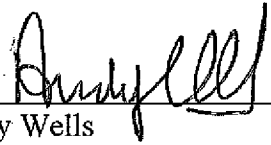
1 The Board will approve all of the components of Newfoundland Power's average rate base for  
2 2015 in the amount of \$1,019,082,000.


3  
4 **IV ORDER**

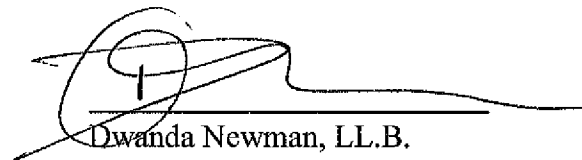
5  
6 **IT IS THEREFORE ORDERED THAT:**

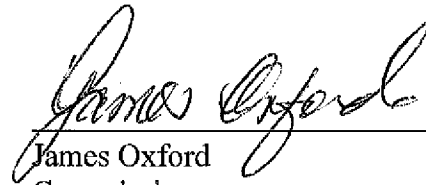
- 7  
8 **1. Newfoundland Power's proposed construction and purchase of improvements or**  
9 **additions to its property to be completed in 2017, as set out in Schedule A to this Order,**  
10 **are approved.**  
11  
12 **2. Newfoundland Power's proposed multi-year construction and purchase of**  
13 **improvements or additions to its property to begin in 2017, as set out in Schedule B to**  
14 **this Order, are approved.**  
15  
16 **3. Newfoundland Power's 2017 Capital Budget for improvements or additions to its**  
17 **property in an amount of \$89,411,000, as set out in Schedule C to this Order, is**  
18 **approved.**  
19  
20 **4. Newfoundland Power's average rate base for the year ending December 31, 2015 is**  
21 **hereby fixed and determined at \$1,019,082,000.**  
22  
23 **5. Unless otherwise directed by the Board, Newfoundland Power shall file an annual**  
24 **report to the Board on its 2017 capital expenditures by March 1, 2018.**  
25  
26 **6. Unless otherwise directed by the Board, Newfoundland Power shall provide, in**  
27 **conjunction with the 2018 Capital Budget Application, a status report on the 2017**  
28 **capital budget expenditures showing for each project:**  
29  
30 **(i) the approved budget for 2017;**  
31 **(ii) the expenditures prior to 2017;**  
32 **(iii) the 2017 expenditures to the date of the application;**  
33 **(iv) the remaining projected expenditures for 2017;**  
34 **(v) the variance between the projected total expenditures and the approved**  
35 **budget; and**  
36 **(vi) an explanation of the variance.**  
37  
38 **7. Newfoundland Power shall pay all costs and expenses of the Board incurred in**  
39 **connection with the Application.**


**DATED** at St. John's, Newfoundland and Labrador this 12<sup>th</sup> day of September, 2016.

  
\_\_\_\_\_  
Andy Wells  
Chair & Chief Executive Officer

  
\_\_\_\_\_  
Darlene Whalen, P.Eng.  
Vice-Chair

  
\_\_\_\_\_  
Dwanda Newman, LL.B.  
Commissioner

  
\_\_\_\_\_  
James Oxford  
Commissioner

  
\_\_\_\_\_  
Cheryl Blundon  
Board Secretary

**Newfoundland Power Inc.**  
**2017 Capital Budget**  
**Single-Year Projects Over \$50,000**  
**(000s)**

| <b><u>Project Description</u></b>                     | <b><u>2017</u></b>     |
|---|------------------------|
| <b><u>Generation - Hydro</u></b>                      |                        |
| Facility Rehabilitation                               | \$1,607                |
| Public Safety Around Dams                             | 662                    |
| Tors Cove Plant Refurbishment                         | 1,476                  |
| <b>Total Generation - Hydro</b>                       | <b><u>\$3,745</u></b>  |
| <b><u>Generation - Thermal</u></b>                    |                        |
| Facility Rehabilitation Thermal                       | \$234                  |
| <b>Total Generation - Thermal</b>                     | <b><u>\$234</u></b>    |
| <b><u>Substations</u></b>                             |                        |
| Substations Refurbishment and Modernization           | \$8,875                |
| Replacements Due to In-Service Failures               | 3,851                  |
| Additions Due to Load Growth                          | 2,574                  |
| PCB Bushing Phase-out                                 | 1,009                  |
| Substation Feeder Termination                         | 284                    |
| <b>Total Substations</b>                              | <b><u>\$16,593</u></b> |
| <b><u>Transmission</u></b>                            |                        |
| Transmission Line Rebuild                             | \$4,994                |
| <b>Total Transmission</b>                             | <b><u>\$4,994</u></b>  |
| <b><u>Distribution</u></b>                            |                        |
| Extensions  | \$11,834               |
| Meters  | 4,391                  |
| Services  | 3,564                  |
| Street Lighting                                       | 2,049                  |
| Transformers  | 6,103                  |
| Reconstruction  | 4,908                  |
| Rebuild Distribution Lines                            | 4,023                  |
| Relocate/Replace Distribution Lines for Third Parties | 2,266                  |
| Trunk Feeders   | 1,834                  |
| Feeder Additions for Growth                           | 1,430                  |
| Distribution Reliability Initiative                   | 200                    |
| Distribution Feeder Automation                        | 568                    |
| Allowance for Funds Used During Construction          | 209                    |
| <b>Total Distribution</b>                             | <b><u>\$43,379</u></b> |

**General Property**

|  |                       |
|--|-----------------------|
| Tools and Equipment                          | \$475                 |
| Additions to Real Property                   | 471                   |
| Company Buildings Renovations – Stephenville | 351                   |
| Standby and Emergency Power – Stephenville   | 205                   |
| <b>Total General Property</b>                | <b><u>\$1,502</u></b> |

**Transportation**

|                                      |                       |
|--------------------------------------|-----------------------|
| Purchase Vehicles and Aerial Devices | \$3,456               |
| <b>Total Transportation</b>          | <b><u>\$3,456</u></b> |

**Telecommunications**

|  |                    |
|--|--------------------|
| Replace/Upgrade Communications Equipment | \$98               |
| <b>Total Telecommunications</b>          | <b><u>\$98</u></b> |

**Information Systems**

|  |                       |
|--|-----------------------|
| Application Enhancements                   | \$1,003               |
| System Upgrades                            | 1,481                 |
| Personal Computer Infrastructure           | 485                   |
| Shared Server Infrastructure               | 661                   |
| Network Infrastructure                     | 388                   |
| Geographic Information System Improvements | 200                   |
| <b>Total Information Systems</b>           | <b><u>\$4,218</u></b> |

**Unforeseen Allowance**

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

**General Expenses Capitalized**

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

|  |                               |
|--|-------------------------------|
| <b>Total Expenditures Single-Year Projects over \$50,000</b> | <b><u><u>\$82,969</u></u></b> |
|--|-------------------------------|

**Newfoundland Power Inc.  
2017 Capital Budget  
Multi-Year Projects Over \$50,000  
(000s)**

**Multi-Year Projects Commencing in 2017**

| <b><u>Project Description</u></b>                             | <b><u>2017</u></b>    | <b><u>2018</u></b>    |
|---|-----------------------|-----------------------|
| Distribution Reliability Initiative                           | \$1,215               | \$1,431               |
| <b>Total Expenditures Multi-Year Projects Commencing 2017</b> | <b><u>\$1,215</u></b> | <b><u>\$1,431</u></b> |

**Multi-Year Projects Approved in Previous Years**

| <b><u>Project Description</u></b>  | <b><u>2017</u></b>    |
|--|-----------------------|
| Transmission Line Rebuild  | \$1,717               |
| SJM Waterford River Ductbank Replacement                                 | 2,440                 |
| Microsoft Enterprise Agreement   | 195                   |
| Outage Management System Replacement                                     | 875                   |
| <b>Total Expenditures Multi-Year Projects Approved in Previous Years</b> | <b><u>\$5,227</u></b> |

**Newfoundland Power Inc.**  
**2017 Capital Budget**  
**(000s)**

|  |                               |
|--|-------------------------------|
| Projects over \$50,000 to be completed in 2017       | \$82,969                      |
| Multi-Year Projects over \$50,000 commencing in 2017 | 1,215                         |
| Multi-Year Projects Approved in Previous Years       | 5,227                         |
| <b>Total 2017 Capital Budget</b>                     | <b><u><u>\$89,411</u></u></b> |

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*Newfoundland & Labrador*

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**  
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