

WHENEVER. WHEREVER.
We'll be there.



HAND DELIVERED

December 23, 2013

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

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Ladies and Gentlemen:

**Re: Newfoundland and Labrador Hydro - Amended General Rate Application -
Prudence Review**

Please find enclosed the original and 12 copies of Newfoundland Power's Submission in relation to the above-noted Application.

For convenience, the Submission is provided on three-hole punched paper.

A copy of this letter, together with enclosures, has been forwarded directly to the parties listed below.

If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,

A handwritten signature in blue ink, appearing to read "Gerard M. Hayes".

Gerard M. Hayes
Senior Counsel

Enclosures

WHENEVER. WHEREVER.
We'll be there.



c. Geoffrey Young
Newfoundland and Labrador Hydro

Thomas Johnson, QC
O'Dea Earle Law Offices

Paul Coxworthy
Stewart McKelvey

Thomas O'Reilly, QC
Vale Newfoundland & Labrador Limited

Dennis Browne, QC
Miller & Hearn

Yvonne Jones, MP
Labrador

Genevieve Dawson
Nunatsiavut Government

Senwung Luk
Olthius, Kleer, Townshend, LLP

Danny Dumaresque

**Newfoundland and Labrador Hydro
Prudence Review**

**Written Submissions
of Newfoundland Power**

December 23, 2015

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1 **A. INTRODUCTION**

2 On February 27, 2015, the Board of Commissioners of Public Utilities (the “Board”) released the
3 terms of reference relating to a prudence review (the “Prudence Review”) into certain actions
4 and decisions taken by Newfoundland and Labrador Hydro (“Hydro”) and whether associated
5 costs were to be recovered from Hydro’s customers. The Board retained The Liberty Consulting
6 Group (“Liberty”) to provide expert assistance. These are Newfoundland Power’s submissions
7 on the Prudence Review.

8
9 The evidence before the Board in the Prudence Review provides a substantial basis for the Board
10 to conclude that Hydro’s systematic and broad failure to adhere to appropriate maintenance
11 cycles for a number of years constituted imprudence on Hydro’s part. Further, the Board should
12 order that recovery from customers of the cost consequences of Hydro’s imprudence should be
13 disallowed.

14
15 Based upon the evidence before the Board in the Prudence Review, the Board would be justified
16 in ordering that Hydro be disallowed the recovery from customers of a total of \$10 million in
17 capital costs and between \$12.5 million to \$13.2 million in operating costs.

18
19 The amounts for which disallowance is justified based upon the evidence (and rounded to the
20 nearest \$100,000) are summarized in Table 1 and are described in detail in these submissions
21 under the section indicated.

Table 1
Prudence Review
Hydro Cost Disallowances
(\$000s)

Section	Capital	Operating
D. Maintenance Failures	5,400	1,300
E. January 2014 Supply Costs	-	1,000 – 1,700
G. Misc. 2014/2015 Operating Costs	-	7,200
H. Holyrood Unit 1	4,600	3,000
Total	10,000	12,500 – 13,200

1

2 **B. THE APPROPRIATE STANDARD**

3 In its terms of reference for the Prudence Review the Board provided a selection of standards or
4 tests used in Nova Scotia and Ontario for determining the prudence of utility decisions and
5 actions.

6

7 The standard adopted by Liberty was outlined in its *Prudence Review of Newfoundland and*
8 *Labrador Hydro Decisions and Actions Final Report*, July 6, 2015 (the “Liberty Report”) as
9 shown below:

- 10 “1. The utility’s decisions and actions must be reasonable in the context of
11 information that was known or should have been known at the time.
12 2. The utility must act in a reasonable manner and use a reasonable
13 standard of care in its decision making process.
14 3. Hindsight is not to be used in assessing prudence; decisions and actions
15 must be evaluated on the basis of circumstances existing at the time.”
16

17 **Reference:** *The Liberty Report, page ES-1.*

18

19 In Newfoundland Power’s submission, the prudence standard articulated in the Liberty Report is
20 appropriate for use by the Board in the Prudence Review.

1 **C. THE EVIDENCE**

2 **C.1 General**

3 The primary evidence supporting a finding of imprudence by Hydro is summarized in the Liberty
4 Report. The Liberty Report is based upon detailed information contained in 272 responses to
5 Requests for Information (“RFIs”) by Hydro.

6
7 The primary evidence refuting a finding of imprudence by Hydro is contained in Hydro’s Reply
8 Evidence of August 7, 2015 (the “Hydro Reply Evidence”) and the *Review of Newfoundland and*
9 *Labrador Hydro Decisions and Actions Related to Outage Events*, August 7, 2015 performed by
10 LaCapra Associates (the “LaCapra Report”).

11
12 Liberty responded to the Hydro Reply Evidence and the LaCapra Report in *Reply Evidence*
13 *Prudence Review of Newfoundland and Labrador Hydro Decisions and Actions*, September 17,
14 2015 (the “Liberty Reply Evidence”).

15
16 Hydro responded to the Liberty Reply Evidence with surrebuttal evidence together with
17 surrebuttal evidence of Gannett Fleming and LaCapra Associates on October 14, 2015
18 (collectively, the “Hydro Surrebuttal Evidence”).

19
20 Testimonial evidence was also provided by Hydro, Liberty and LaCapra Associates commencing
21 during the week of October 26, 2015 at the hearing into Hydro’s amended 2013 General Rate
22 Application.

1 On December 16, 2015, Hydro informed the Board by letter that, following the testimonial
2 evidence, Hydro discovered information relevant to the Board’s Prudence Review. In light of
3 the discovered information, Hydro took “...full responsibility for any cost consequences
4 attributable to the failure of the DC lube oil pumping system in January 2013” (the “Hydro
5 Admission”). The Hydro Admission relates to the 2013 failure of Hydro’s Holyrood Unit 1.
6

7 **C.2 Weighing the Evidence**

8 In Newfoundland Power’s submission, the key evidentiary finding in the Board’s Prudence
9 Review relates to the consequences to be attached to Hydro’s failures in preventative
10 maintenance.
11

12 The Liberty Report clearly identifies Hydro’s systematic and broad failure to adhere to
13 appropriate maintenance cycles for a number of years. This identified failure forms the basis of
14 the Liberty Report’s proposed imprudence disallowances related to (i) the Sunnyside
15 replacement equipment, (ii) the Western Avalon Terminal Station T5 Tap Changer replacement,
16 (iii) the overhauls of the Sunnyside B1L03 and Holyrood B1L17 230 kV breakers, (iv) the
17 extraordinary transformer and breaker repairs and (v) capacity related supply costs.

18 **Reference:** *The Liberty Report, pages ES-3 to ES-6.*
19

20 Hydro, on the other hand, maintains that:

21 *“Hydro’s overall asset management approach has been proactive, comprehensive,*
22 *and cost effective, and recognizes our aging asset base. All decisions and*
23 *approaches to Hydro’s overall asset management plan have been done in a*
24 *considered fashion, and are adjusted appropriately as our plan proceeds.*

1 *Neither Hydro, its expert consultants or Liberty could find any direct linkage*
2 *between deferred maintenance work and the issues that caused the outages under*
3 *review. Rather than being imprudent, Hydro’s actions have been considered within*
4 *the context of a prudent overall asset management plan and Hydro has and will*
5 *continue to actively monitor and adjust its plan on a regular basis.”*
6

7 **Reference:** *Hydro Reply Evidence, page 4, line 21 to page 5, line 2.*

8
9 The Liberty Group’s view of Hydro’s position in the reply evidence was:

10 *“Hydro’s position on causation might have merit had it acted prudently. Causal*
11 *uncertainty in those circumstances should lead to a conclusion that no proper*
12 *foundation exists for assigning cost responsibility to the utility. When faced with*
13 *multiple failures by separate pieces of equipment whose circumstances exemplify a*
14 *widespread failure to adhere to prudent practice, it is proper to draw a cause/effect*
15 *association in the absence of credible exculpatory reasons supported by substantial*
16 *evidence. Neither Hydro nor Liberty have been able to find such reasons (and such*
17 *support).”*
18

19 **Reference:** *The Liberty Reply Evidence, page 6, line 22 to page 7, line 2.*

20
21 In assessing the weight to attribute to each of these competing positions, Newfoundland
22 Power believes that the Board should consider the following:

- 23 1. The evidence summarized in the Liberty Report shows a systematic and broad
24 failure by Hydro to adhere to its own maintenance cycles for a number of years
25 prior to 2014.
- 26 2. While Hydro has improved its maintenance performance since January 2014, the
27 performance prior to that time was not shown to be proactive or comprehensive or
28 to pay due regard to Hydro’s aging assets.

- 1 3. The circumstances giving rise to the Board’s Prudence Review involve multiple
2 equipment failures as opposed to the failure of a single piece of electrical
3 equipment.
- 4 4. Hydro’s Reply Evidence of August 7, 2015 at page 4 refers to the current
5 preventative maintenance backlog. This backlog was acknowledged to exist by
6 Hydro some 19 months after the January 2014 failures. The length of time it will
7 take to relieve Hydro’s preventative maintenance backlog provides an indication of
8 the severity of maintenance deficiencies prior to January 2014.
- 9 5. Up to the time of the Hydro Admission, Hydro adopted a similar position in
10 relation to the 2013 Holyrood Unit 1 turbine failure. It was Hydro’s and LaCapra
11 Associates’ evidence that absent any indication of an issue with the DC lube oil
12 system, no basis existed for a finding of imprudence (see LaCapra Report, page 19
13 and Hydro Reply Evidence, page 29).

14

15 In Newfoundland Power’s submission, the circumstances surrounding the January 2014
16 Hydro electrical system equipment failures practically require Hydro to show in evidence
17 that its maintenance practices prior to the failures was *reasonable*. In the almost 2 years
18 since January 2014, Hydro has not been able to do this.

19

20 In Newfoundland Power’s submission, Hydro’s inability to demonstrate its maintenance
21 practices were reasonable, together with the factors itemized above, provide the Board with
22 sufficient justification to assess Hydro’s preventative maintenance performance prior to
23 January 2014 as imprudent. “Direct linkages” between Hydro’s systematic maintenance

1 deficiencies and each and every equipment failure are not necessary to ground a finding of
2 imprudence. If such linkages were required, Hydro's customers or the Board would, in
3 effect, be forced to prove that Hydro's maintenance practices were inadequate as opposed
4 to requiring Hydro to prove them reasonable. That would not be a reasonable regulatory
5 outcome.

6

7 **C.3 Submission on Prudence**

8 Newfoundland Power submits that the evidence before the Board provides a substantial
9 basis for the Board to conclude that Hydro's systematic and broad failure to adhere to
10 appropriate maintenance cycles for a number of years resulted in the failure of (i) the
11 Sunnyside transformer ("Sunnyside"), (ii) the Western Avalon Terminal Station T5 tap
12 changer ("Western Avalon") and (iii) the Sunnyside B1L03 and Holyrood B1L17 230 kV
13 breakers (the "230 kV breakers"). These failures caused Hydro to incur unnecessary
14 capital and operating costs relating to replacement of some failed equipment, extraordinary
15 repairs to other equipment and emergency power supply.

16

17 **C.4 The Issue of the 2014 Test Year**

18 In Hydro's 2013 General Rate Application as amended, it is indicated that:

19 *"Hydro's Amended Application is based on a 2014 Test Year **for the purposes of***
20 ***recovery of a 2014 revenue deficiency (2014 Revenue Deficiency) and is based on a***
21 ***2015 Test Year for the purpose of setting rates for customers."** (emphasis added)*

22 **Reference:** *Hydro's 2013 General Rate Application – Amended, Company Evidence, Section*
23 *3.1, page 3.3, lines 4-6.*

1 Hydro has not presented any evidence in this proceeding as to whether using a test year as a basis
2 for recovering losses or deficiencies is an acceptable regulatory practice or whether the practice
3 has been used in other jurisdictions.

4 **Reference:** *Transcript, November 19, 2015, page 35, lines 20 to page 38, line 14.*

5
6 In carrying out its duties under the Public Utilities Act, the Board is required to apply tests which
7 are consistent with generally accepted sound public utility practice.

8 **Reference:** *Electrical Power Control Act, 1994, s.4.*

9
10 It appears that Liberty used Hydro's 2014 audited financial statements to review costs for
11 prudence because it was the best available information.

12 **Reference:** *Transcript, November 12, 2015, page 171, lines 1-7.*

13
14 In a number of instances, Hydro has brought to the Board's attention that costs for which
15 disallowance on the basis of imprudence were imposed, were not in Hydro's test year. For
16 example, for both the 2014 overtime costs of approximately \$3.6 million and the 2014 executive
17 salary transfers of approximately \$0.5 million, Hydro has indicated it would be unfair to disallow
18 an amount in excess of what was included in Hydro's 2014 test year. This assertion, particularly
19 in light of the lack of regulatory precedent permitting use of a test year as a basis for recovering
20 past deficits, makes it difficult to assess Hydro's position in a comprehensive way. This
21 difficulty is compounded by the fact that it is not simple to compare, much less reconcile,
22 amounts in Hydro's test year with actuals. Use of actual costs reflected in audited financial
23 statements, on the other hand, is logical, widely accepted and easily understood.

1 Given these difficulties, Newfoundland Power has, where a lack of clarity exists, relied upon the
2 estimates based upon audited financial statements in making these submissions. Newfoundland
3 Power recognizes the imperfection in this approach but believes it to be the most appropriate one
4 in the circumstances.

5
6 **D. MAINTENANCE FAILURES**

7 **D.1 Capital Costs**

8 Table 2 summarizes the capital cost consequences of Hydro's systematic maintenance
9 deficiencies proposed in the Liberty Report.

10

Table 2
Maintenance Deficiencies
Capital Cost Consequences
The Liberty Group
(\$000s)

	2014/2015
Sunnyside ¹	3,911
Western Avalon ²	1,014
230 kV Breakers ³	522
Total	5,447

11

¹ The Liberty Report, Table 5.3, page 30.

² The Liberty Report, page 34.

³ The Liberty Report, page 37.

1 Table 3 summarizes the capital cost consequences as estimated by Hydro.

2

Table 3
Maintenance Deficiencies
Capital Cost Consequences
Hydro
(\$000s)

	2014/2015
Sunnyside ⁴	1,014
Western Avalon ⁵	291
230 kV Breakers ⁶	522
Total	1,827

3

4 The primary difference in the estimate of capital cost consequences between the Liberty

5 Report and Hydro appears to relate to the concept of “betterment”. This issue was

6 addressed by Gannett Fleming’s Mr. Larry Kennedy.

7

8 Mr. Kennedy is an accepted expert in the field of utility depreciation. His evidence was

9 that findings of imprudence and the consequences thereof were not matters within his

10 expertise.

11 **Reference:** *Transcript, October 30, 2015, page 42, lines 5-20.*

⁴ The response to Request for Information PR-PUB-NLH-203 and PR-CA-NLH-014 (Rev 1).

⁵ The response to Request for Information PR-CA-NLH-014 (Revision 1, Oct 15-15), which indicates Hydro disagrees with disallowance but submits \$291,091 referred to in Hydro’s Reply Evidence would be an appropriate amount if disallowance was justified.

⁶ These breakers failed. Hydro does not appear to take issue with Liberty’s indication of the cost of replacement although it has maintained that disallowance of the cost is not justified.

1 The application of the concept of “betterment” to the evidence relating to Hydro’s
2 maintenance deficiencies presents a dilemma in this proceeding. This was clearly
3 recognized by the Board.

4 **Reference:** *See, for example, the exchange between Vice-Chair Whalen and*
5 *Mr. Kennedy, Transcript, October 30, 2015, page 54, line 3, et. seq.*
6

7 One aspect of the dilemma is intergenerational in nature. On the one hand, rate payers of
8 today may be asked to pay more than they would have been required to pay absent Hydro’s
9 imprudence if betterment is applied to the costs as proposed by Hydro. On the other hand,
10 future rate payers may avoid costs (due to inflation) by the early replacement of electrical
11 equipment due to imprudence.

12

13 The other aspect of the dilemma relates to utility responsibility. It is the utility’s failure to
14 act reasonably which gives rise to a finding of imprudence. So, there is no compelling
15 reason to burden the utility’s customers with *any* consequences due to the imprudence.
16 Only the utility which was in a position to avoid imprudent action should bear the
17 consequences.

18

19 It was suggested in the Liberty Reply Evidence that Hydro could, at a date after the likely
20 end of the lives of the equipment required to be replaced prematurely due to imprudence,
21 apply to have the then depreciated value of the replacement equipment admitted to rate
22 base.

1 This would ensure current customers do not bear the burden of any consequences due to
 2 the imprudence and limit the impact upon Hydro of the temporary exclusion of the full cost
 3 of the replacement equipment.

4 **Reference:** *The Liberty Reply Evidence, page 13, line 22 to page 14, line 7 which was*
 5 *further explained at Transcript, November 12, 2015, page 58, line 20 to*
 6 *page 61, line 9.*
 7

8 **D.2 Operating Costs**

9 Table 4 summarizes the operating cost consequences of Hydro's systematic maintenance
 10 deficiencies proposed in the Liberty Report.
 11

Table 4
Maintenance Deficiencies
Operating Cost Consequences
The Liberty Group
(\$000s)

	2014	2015	Total
Sunnyside ⁷	880	133	1,013
Western Avalon ⁸	41	41	82
230 kV Breakers ⁹	164	-	164
Total	1,085	174	1,259

12
 13 Hydro does not appear to contest the accuracy of this summary.

14 **Reference:** *Hydro does dispute that it is warranted to disallow costs to carry out deferred*
 15 *work. See Hydro Reply Evidence, pages 19-20.*

⁷ The Liberty Report, Table 5.3, page 30.

⁸ The Liberty Report, page 34.

⁹ The Liberty Report, page 37.

1 D.3 Submission on the Consequences of Maintenance Failures

2 Newfoundland Power submits that the evidence before the Board justifies the Board ordering
3 that recovery from customers of approximately \$5.4 million in capital cost consequences and
4 approximately \$1.3 million in operating cost consequences resulting from Hydro's systematic
5 and broad failure to adhere to appropriate maintenance cycles for a number of years be
6 disallowed. The application of the concept of "betterment" to these circumstances has not been
7 shown to be reasonable.

8

9 E. JANUARY 2014 SUPPLY COSTS

10 The Liberty Report proposed that approximately \$2.2 million of a total of \$9.8 million in supply
11 related costs incurred by Hydro in January 2014 be disallowed. The proposed disallowance was
12 based upon the unavailability of Hydro's Holyrood Unit 1 during the January 5-8, 2014 period.

13 **Reference:** *The Liberty Report, pages 15-20.*

14

15 Hydro has taken issue with the proposed disallowance. Firstly, Hydro maintains that
16 approximately \$0.5 million represents double counting and should be removed. The Liberty
17 Reply Evidence accepts Hydro's point. Hydro's second issue with the proposed disallowance
18 deals with the imprecise methodology used in the Liberty Report to determine the proposed
19 disallowance. Alternative calculations proposed by Hydro resulted in calculated disallowances
20 of \$0 and approximately \$1 million. The Liberty Reply Evidence asserts that the methodology
21 used in the Liberty Report was superior to that proposed by Hydro.

22 **Reference:** *Hydro Reply Evidence, page 7 and page 7, lines 19-25.*
23 *Liberty Reply Evidence, page 16, lines 17-26 and page 27, lines 4-12.*

1 The methodology used in the Liberty Report uses the average replacement power costs for the 4
2 days January 9-12 to estimate the proposed disallowance. One Hydro alternative calculation
3 uses the 4 days January 1-4 to calculate a disallowance of \$0. The other Hydro alternative
4 calculation uses the average replacement costs over the January 1-4 and January 9-12 periods to
5 calculate a disallowance of approximately \$1 million.

6
7 In Newfoundland Power's submission, there is no correct method to estimate the additional
8 supply costs required during the January 5-8 period due to the unavailability of Hydro's
9 Holyrood Unit 1. In particular, Newfoundland Power submits there is no intrinsic reason for the
10 Board to favor the approximately \$1.7 million disallowance proposed in the Liberty Report (after
11 deduction of approximately \$0.5 million to avoid double counting) over the approximately \$1
12 million which results from averaging replacement costs over both the 4 days before and after the
13 January 5-8 period proposed by Hydro.

14
15 Use of only the 4 day prior period as suggested by Hydro which yields no disallowance may not
16 be reasonable due to the extraordinary system conditions outlined in the Liberty Reply Evidence.

17 **Reference:** *The Liberty Reply Evidence, page 27, lines 4-12.*

18

19 **F. BLACKSTART**

20 The Liberty Report concludes that Hydro failed to act prudently in managing blackstart
21 capability for Hydro. It is concluded that the amount spent by Hydro for this project was
22 attributable to imprudence and should be disallowed because the imprudence produced too short

1 a “used and useful” period to justify the expenditures. It was not concluded, however, that the
2 assets acquired for this project were not “used and useful”.

3 **Reference:** *The Liberty Report, page 51 and page ES-5.*

4

5 The LaCapra Report concludes that the principle shortcoming regarding Hydro’s decision-
6 making on blackstart was not to keep the Board informed in a timely way. Ultimately, the
7 LaCapra Report concluded that Hydro’s actions were the result of a Board directive which Hydro
8 could not ignore.

9 **Reference:** *The LaCapra Report, pages 11-13.*

10

11 In Newfoundland Power’s view, the lack of blackstart capability at the Holyrood plant
12 significantly extended a severe power outage in January 2013. The lack of blackstart capability
13 was clearly the result of imprudent Hydro decision-making. There is no evidence of reasonable
14 system planning or weighing of risks on Hydro’s part in reaching that decision.

15

16 In Newfoundland Power’s submission, the evidence relating to the lack of blackstart capability
17 does not indicate that *the amounts spent* by Hydro to install blackstart capability at Holyrood
18 following the January 2013 outage were imprudent. In fact, the evidence does not indicate that
19 the diesels were not used and useful. It just indicates they will be used and useful for a shorter
20 period of time.

21

22 This presents the Board with a dilemma. On the one hand, the severity of the potential customer
23 impacts of Hydro’s imprudence are high. On the other hand, the logic supporting the specific

1 proposed penalty for the imprudence (disallowance of the cost of a used and useful asset) is not
2 compelling. The difficulties of fashioning an appropriate regulatory penalty were canvassed in
3 the Liberty Reply Evidence. At page 22, it was indicated:

4
5 **“Q. What is your rationale for assuming that the sanction should be the total cost**
6 **of the Black Start project? Could it not be more or less?**

7
8 **A. While determination of a fair and reasonable sanction may be difficult, it is our**
9 **view that disallowing costs associated with the Black Start project**
10 **compromises a reasonable means for incenting Hydro to avoid prudent courses**
11 **of action in the future.**

12
13 **Q. In your experience, has such an approach to assigning consequence for**
14 **imprudent actions been used before?**

15
16 **A. This approach is a useful means for attaching consequence to high-risk actions**
17 **where good fortune has prevented bad outcomes. Otherwise, there would be**
18 **no way to incent management to act prudently where failures do not lead**
19 **directly to quantifiable damages. Liberty recently participated in a case in**
20 **Nova Scotia in which the utility was sanctioned \$2 million because the**
21 **regulator felt its conduct in a rate case was inappropriate.”**
22

23 In Newfoundland Power’s view, the fact that the Nova Scotia regulator sanctioned a utility \$2
24 million because the regulator felt its conduct in a rate case was inappropriate has little to do with
25 the disallowance of recovery of a used and useful investment. Newfoundland Power submits it is
26 not appropriate for the Board to sanction a utility for imprudent conduct by disallowing any
27 recovery of a utility investment which has not been shown to be anything but used and useful.
28 This is because the sanction bears no reasonable nexus to the inappropriate conduct.

29
30 The *Public Utilities Act* provides means for the Board to enforce reasonable utility management
31 conduct. Disallowance of recovery of utility investments which are used and useful should not
32 be a means to ensure reasonable utility decision-making.

1 **G. MISCELLANEOUS 2014/2015 OPERATING COSTS**

2 **G.1 General**

3 In chapters 8 and 9 of the Liberty Report, disallowances on account of Hydro imprudence
4 totaling approximately \$7.8 million are proposed. The proposed disallowances include (i) \$1.2
5 million in 2015 extraordinary transformer and breaker repairs, (ii) approximately \$2.5 million in
6 2014 professional services costs, (iii) approximately \$3.6 million in 2014 overtime costs and (iv)
7 approximately \$0.5 million in 2014 executive salary transfers.

8

9 This section of Newfoundland Power's submission addresses these costs.

10

11 **G.2 2015 Extraordinary Transformer and Breaker Repairs**

12 Hydro has proposed to amortize \$1.2 million in 2015 extraordinary repairs required to catch up
13 on its maintenance program over a 5 year period. Liberty proposes that approximately \$0.9
14 million, or all costs that exceed "normal maintenance", be disallowed. This proposal is based
15 upon the logic that in the absence of imprudence, Hydro would only perform "normal
16 maintenance".

17 **Reference:** *The Liberty Report, pages 38-40.*

18

19 Hydro does not believe disallowance is warranted simply because the work is outside the general
20 maintenance cycle. In Hydro's view, "This is especially the case where the maintenance was
21 deferred to carry out higher priority work on a considered basis, and if they work was done
22 previously additional costs would have needed to be incurred in any event."

23 **Reference:** *Hydro Reply Evidence, page 20, lines 1-3.*

1 In Newfoundland Power’s submission, it has not been proven in evidence that Hydro’s
 2 systematic and broad failure to adhere to appropriate maintenance cycles for a number of years
 3 was the result of deferrals “...to carry out higher priority work on a considered basis.” In fact, as
 4 indicated earlier in this submission, the evidence supports a finding that Hydro’s equipment
 5 failures were the result of imprudence.

6

7 **G.3 2014 Professional Services Costs**

8 At page 45 of the Liberty Report, approximately \$2.5 million in 2014 professional services costs
 9 are identified as falling into the “but for” or imprudent category.

10

11 Table 5 shows the larger charges included in this \$2.5 million amount.

12

Table 5
2014 Hydro Professional Services Fees
Proposed Disallowance¹⁰
(\$000s)

Outage Inquiry Legal Fees	876
PUB Outage Inquiry	958
Intervenor Outage Inquiry	250
Sunnyside Environmental Remediation	346
Event Engineering Investigation	74
Total	2,504

13

14 The Hydro Reply Evidence indicates that approximately \$0.25 million of the outage inquiry legal
 15 fees proposed by Liberty for disallowance were not actually related to Phase I of the Board’s
 16 inquiry. With respect to the \$958,000 related to the PUB outage inquiry and \$0.25 million

¹⁰ The Liberty Report, page 45.

1 associated with the intervenor outage inquiry, the Hydro Reply Evidence merely asserts that any
2 costs associated with Phase II of the Board's inquiry should be recoverable. Finally, the Hydro
3 Reply Evidence indicates that the Sunnyside environmental remediation costs were also included
4 in Liberty's proposed disallowance in relation to the Sunnyside replacement equipment.

5 **Reference:** *Hydro Reply Evidence, page 21, line 8 to page 22, line 7; page 22, lines 9-24; and*
6 *page 22, line 26 to page 23, line 3.*
7

8 The Liberty Reply Evidence indicated that it had not had the chance to review the source
9 documents associated with the Hydro legal fees. In addition, Liberty did confirm that the
10 Sunnyside environmental remediation costs were substantially the same costs that it had
11 proposed to be disallowed in relation to the Sunnyside equipment replacement.

12 **Reference:** *The Liberty Reply Evidence, page 14, line 9 to page 16, line 14.*
13

14 **G.4 2014 Overtime Costs**

15 The Liberty Report recommends that approximately \$3.6 million in incremental overtime for
16 2014 be disallowed.

17 **Reference:** *The Liberty Report, pages 45-46.*
18

19 Hydro's evidence is that its 2014 test year does not include all of the approximately \$3.6 million
20 in incremental overtime which the Liberty Report recommends be disallowed. According to
21 Hydro, applying the methodology used in the Liberty Report to Hydro's 2014 test year yields a
22 disallowance of approximately \$493,000.

23 **Reference:** *Hydro Reply Evidence, page 23, line 13 to page 24, line 6.*

1 **G.5 2014 Executive Salary Transfers**

2 The Liberty Report recommends that approximately \$0.5 million in 2014 executive salary
3 transfers be disallowed.

4 **Reference:** *The Liberty Report, page 46.*

5

6 Hydro's evidence with respect to this matter was that the proposed disallowance was too large
7 for a number of reasons. Hydro indicated it would carry out specific adjustments to the proposed
8 disallowance to account for this variety of factors as part of its ultimate compliance filing.

9 **Reference:** *Hydro Reply Evidence, page 24, line 8 to page 25, line 27.*

1 G.6 Summary

2 Based upon the evidence before the Board, it appears the following miscellaneous 2014/2015
3 operating cost disallowances may be justified:

4
5 **Table 6**
6 **Miscellaneous 2014/2015 Operating Costs**
7 **Disallowance Summary**
8 **(\$000s)**
9

10	1. 2015 Extraordinary Transformer and Breaker Repairs		\$1,200
11	2. 2014 Professional Services Costs		
12	a. Outage Inquiry Legal Fees	\$623	
13	b. PUB Outage Inquiry	\$958	
14	c. Intervenor Outage Inquiry	\$250	
15	d. Sunnyside Environmental Remediation	-	
16	e. Event Engineering Investigation	<u>\$74</u>	\$1,905
17	3. 2014 Overtime Costs		\$3,584
18	4. 2014 Salary Transfers		<u>\$511</u>
19	Total		\$7,200

1 **H. HOLYROOD UNIT 1**

2 The 2013 Holyrood Unit 1 turbine failure resulted from the failure of the DC lube oil
3 pumping system. In the Hydro Admission, Hydro accepted responsibility for the cost
4 consequences of the DC lube oil pumping system.

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6 Table 7 shows the capital cost consequences of the 2013 Holyrood Unit 1 turbine failure.

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Table 7
2013 Holyrood Unit 1 Failure
Capital Costs
(net of insurance)
(\$000s)

	2015
Capital Costs	4,600

9 **Reference:** *The Liberty Report, page 58.*

10
11 Table 8 shows the operating cost consequences of the 2013 Holyrood Unit 1 turbine
12 failure.

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Table 8
2013 Holyrood Unit 1 Failure
Operating Costs
(\$000s)

	2014	2015	Total
Contract Labour/Other	915	0	915
Depreciation Expense	800	800	1,600
Replacement Power	505	0	505
Operating Expense Totals	2,220	800	3,020

14 **Reference:** *The Liberty Report, page 65. For depreciation expense reduction to*
15 *\$800,000/year, see Liberty Reply Evidence, page 17, lines 2-15.*

- 1 The cost consequences attributable to the January 2013 failure of the DC lube oil pumping
- 2 system total approximately \$8 million through 2015. Newfoundland Power submits that
- 3 the Board should order that recovery of these cost consequences from customers by Hydro
- 4 be disallowed.