

1 **Q. Reference: Schedule B, 2014 Capital Projects – Normal Capital (Historical Pattern)**
2 **Rebuild Distribution Lines (Pooled) page 44 of 85:**

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4 **The Company outlines at page 46 of 85 that “Inspections for the lines upon which**
5 **work is to take place in 2014 are ongoing throughout 2013. Complete inspection**
6 **data will not be available until late 2013; therefore the 2014 budget estimate is based**
7 **on average historical expenditures.” Can the Company postpone submitting this**
8 **project until the end of 2013 in order to get an accurate assessment of cost and**
9 **submit this project to the Board at that time?**

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11 A. The *Rebuild Distribution Lines Project* involves the replacement of deteriorated
12 distribution structures and electrical equipment that have been previously identified
13 through the ongoing preventative maintenance program or engineering reviews. Based
14 on a 7-year inspection cycle, 43 feeders are inspected and reviewed annually in
15 accordance with the *Rebuild Distribution Lines Update* report filed in Tab 4.4 of the 2013
16 Capital Budget Application.

17
18 The *Rebuild Distribution Lines Project* provides a programmed least cost approach to the
19 refurbishment and preventative maintenance of the Company’s distribution lines. Once
20 identified through inspection, the Company must address the deficiencies in a timely
21 manner. Submitting this project for approval at the end of 2013 would delay the start of
22 project work in 2014.¹

23
24 It is not practical to prepare detailed cost estimates for the individual components of this
25 project.² The dissimilar types of equipment, wide variety of deficiencies and various
26 approaches to completing the work in the least cost manner do not lead to budgeting for
27 this project far in advance of the execution of the work.³ Therefore, a more accurate
28 assessment of cost would not be available with the completion of all inspections later in
29 2013. Average historical expenditures provide a reasonable and practical basis for
30 projecting future expenditures for this project.⁴ The budget submission of \$3,462,000 is a
31 reasonable estimate of the expenditure required for the *Rebuild Distribution Lines Project*

¹ Newfoundland Power undertakes work associated with the Rebuild Distribution Lines project throughout the year, including the first quarter. The question suggests filing a supplemental application for expenditures associated with this project at the end of 2013. This would jeopardize the Company’s ability to complete the necessary work in a timely manner.

² The ongoing preventative maintenance program simply identifies deficiencies that will be used to prepare packages of work or job plans that are assembled by technical staff prior to completing the work. While the actual deficiencies are one input into the cost of completing the work, the location of the work and the efficiency gained by appropriately assembling the job plan will significantly impact the actual cost of completing the work. For example, job plans for rebuild work are frequently aligned with other projects to minimize cost and customer outages by completing multiple jobs under a common planned outage.

³ The dynamic nature of completing a large number of small jobs in a least cost manner, combining other jobs involving customer outages, requires job planning that takes place close to the time when the project will be executed.

⁴ The use of historical spending patterns of repair and replacement for normal capital expenditures is recognized in the Capital Budget Guidelines as an acceptable method for estimating future cost. See paragraph 2.b) ii. of the Capital Budget Guidelines.

1 in 2014. The estimate is based on average historical expenditure over the past several
2 years.⁵

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4 The budget process currently in place anticipates and adequately addresses the
5 unavailability of some inspection data at budget time. A reasonable cost estimate for
6 2014 was submitted with the 2014 Capital Budget Application. The estimate will be
7 updated by midyear 2014, if required, in the 2014 Capital Expenditures status report filed
8 with the 2015 Capital Budget Application. Any anticipated changes to the budgeted
9 amount required would be submitted at this time.

10
11 Approval of the 2014 *Rebuild Distribution Lines Project* allows Newfoundland Power to
12 prepare and carry out its 2014 preventative capital maintenance program at least cost.
13 The current budget process provides a reasonable estimate of that cost and a mechanism
14 for updating that cost should expectations change.

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16 Newfoundland Power does not consider delaying the submission of the 2014 *Rebuild*
17 *Distribution Lines Project* until year end to be necessary or reasonable.

⁵ The volume and nature of work identified is relatively consistent from year to year.