

November 30, 2022

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

Attention: Cheryl Blundon  
Director of Corporate Services & Board Secretary

**Re: 2023 Capital Budget Application – Hydro's Final Written Submission**

Newfoundland and Labrador Hydro ("Hydro") filed its 2023 Capital Budget Application ("2023 CBA") with the Board of Commissioners of Public Utilities ("Board") on July 13, 2022,<sup>1</sup> seeking approval of \$90.8 million in capital expenditures for 2023. In that filing, Hydro also sought approval of its 2021 average rate base in the amount of \$2,321,756,000.

**Legislative Framework**

Section 37 of the *Public Utilities Act* ("Act") requires Hydro to provide electrical service and facilities that are reasonably safe and adequate and just and reasonable.<sup>2</sup> Section 41 of the Act requires Hydro to obtain approval from the Board for its annual capital budget.<sup>3</sup> In addition, Section 3 of the *Electrical Power Control Act, 1994* ("EPCA") requires that Hydro provide electrical service that is efficient, that allows for its customers to have equitable access to an adequate supply of power, and that is provided at the lowest possible cost consistent with reliable service.<sup>4</sup>

Hydro submits that the projects included in its 2023 CBA are required to meet Hydro's obligations under the Act and the EPCA to provide power and service to its customers that is safe and adequate and at the lowest possible cost consistent with reliable service. Hydro further submits, and will discuss in more detail herein, that all projects proposed in the 2023 CBA are justified through the inclusion of all necessary and applicable evidence.

**Cost Management**

Hydro strives to operate in a manner resulting in power being delivered to consumers at the lowest possible cost consistent with reliable service. Cost management is an area of focus within all stages of Hydro's capital program, including planning, capital budget proposals, and execution. In its aim to balance the provision of reliable service with cost management, Hydro focuses on sound utility asset management practices, condition-based investments (versus age-based investments) where appropriate, and operational and system requirements.

Hydro also seeks to engage with stakeholders and customers to inform its capital investment considerations. Hydro appreciates that its actions impact its customers and strives to balance reliability performance and costs to provide reasonable electrical service to its distribution customers. Hydro's response to CA-NLH-028 of this proceeding provided details of its customer engagement practices. In

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<sup>1</sup> "2023 Capital Budget Application," Newfoundland and Labrador Hydro, July 13, 2022.

<sup>2</sup> *Public Utilities Act*, RSNL 1990, c P-47, s 37(1).

<sup>3</sup> *Ibid*, s 41(1).

<sup>4</sup> *Electrical Power Control Act, 1994*, SNL 1994, c E-5.1, s 3(b).

preparing the 2023 CBA, Hydro took deliberate action to ensure its proposals reflect a level of investment that appropriately balances reliability and cost concerns,<sup>5</sup> particularly in light of increasing rate pressures and other planned 2023 capital work.<sup>6</sup>

As in previous years, Hydro evaluated each project to determine whether deferral was an option,<sup>7</sup> resulting in the deferral<sup>8</sup> of capital projects totalling approximately \$6 million. Where deferral of a program or project is determined to be low risk, that option is selected to balance the cost impact to customers with the level of reliability required.

### **Intervenor Written Submissions**

Hydro notes that although submissions were filed by all of the intervenors, none opposed the proposed 2023 CBA and the specific capital expenditures detailed therein. Hydro's replies to the intervenors' specific submissions are provided herein.

### ***Island Industrial Customer Group***

The Island Industrial Customer Group ("IIC Group") advised that its submissions would be focused on the ". . . mid-term to long-term planning imperatives . . ." <sup>9</sup> Hydro should be utilizing in its annual capital budget process. Specifically, the IIC Group focused on the future of the Holyrood Thermal Generating Station ("Holyrood TGS") and longer-term planning for that asset. The IIC Group noted that for the past number of years, the inclusion of proposed projects for the Holyrood TGS in capital budget planning was on a year-to-year basis, due to Hydro's commitment to keep the Holyrood TGS available as a generating facility for two years following the commissioning of the Labrador-Island Link.<sup>10</sup> The IIC Group further notes that Hydro's short-term planning for the Holyrood TGS has been impacted by the filing of Hydro's "Reliability and Resource Adequacy Study – 2022 Update" ("2022 Update"),<sup>11</sup> in which Hydro recommends the extension of the operation of the Holyrood TGS pending the installation of additional generation on the Island. The IIC Group, while acknowledging that that issue is being considered within the separate *Reliability and Resource Adequacy Study Review* proceeding, notes that that recommendation has a substantive impact on future capital budget planning and the analysis thereof. The IIC Group also notes ". . . it is unclear to the IIC Group what decision-making process will be implemented, within the time frame necessary, to examine and decide whether these projected HTGS costs would be prudent and least-cost measures and as to what alternatives should be considered."<sup>12</sup> The IIC Group submits that the usual process of review of these capital expenditures in the capital budget application process (and the associated supplementary capital expenditure applications) do not meet the needs of a fulsome examination. The IIC Group submits that plans for expenditures related to

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<sup>5</sup> Hydro's response to CA-NLH-026 of this proceeding provides an overview of steps taken to manage costs.

<sup>6</sup> The total capital expenditure proposed in the 2023 CBA does not reflect 2023 costs associated with certain planned supplemental capital projects. Including these projects, total costs to be recovered from customers is \$104.5 million. Hydro's response to PUB-NLH-001 of this proceeding reconciles the \$90.8 million requested within Hydro's 2023 CBA and the \$104.5 million to be recovered through customer rates.

<sup>7</sup> As discussed in "2023 Capital Budget Application," Newfoundland and Labrador Hydro, July 13, 2022, vol. I, sch. 1, sec. 5.1.1.

<sup>8</sup> A listing of deferred projects is provided in "2023 Capital Budget Application," Newfoundland and Labrador Hydro, July 13, 2022, vol. I, sch. 1, Table 4.

<sup>9</sup> "2023 Hydro Capital Budget Application – Submissions of the Island Industrial Customer (IIC) Group," Island Industrial Customer Group, November 21, 2022, p. 1.

<sup>10</sup> In the "*Reliability and Resource Adequacy Study Review – Additional Considerations of the Labrador-Island Link Reliability Assessment and Outcomes of the Failure Investigation Findings – Additional Information*," Newfoundland and Labrador Hydro, February 4, 2022, p. 7, item 3, Hydro advised the Board of its decision to extend operation of the Holyrood TGS as a generating facility to March 31, 2024.

<sup>11</sup> "*Reliability and Resource Adequacy Study Review – Reliability and Resource Adequacy Study – 2022 Update*," Newfoundland and Labrador Hydro, October 3, 2022.

<sup>12</sup> "2023 Hydro Capital Budget Application – Submissions of the Island Industrial Customer (IIC) Group," Island Industrial Customer Group, November 21, 2022, p. 2.

the Holyrood TGS should be submitted to the Board for approval to allow the Board to properly assess other Island-situate generation options.

Hydro notes that all Holyrood TGS-related projects submitted in the 2023 CBA are fully justified based on the determination to operate the Holyrood TGS until March 31, 2024. However, Hydro believes that having greater certainty and a longer-term view with respect to the Holyrood TGS would allow Hydro to perform more effective planning, provide the Board and intervenors with a clearer picture of longer-term capital expenditures, and simplify the review of future capital budget applications. However, as the IIC Group has acknowledged, discussions surrounding the extension of the operation of the Holyrood TGS as well as discussions about new generation, are ongoing in the *Reliability and Resource Adequacy Study Review* proceeding. Discussions regarding the next steps in that proceeding are also ongoing. As information becomes available, through the *Reliability and Resource Adequacy Study Review* proceeding or the capital budget application process, there will be ample opportunity for regulatory scrutiny by the Board and intervenors.

### ***Newfoundland Power Inc.***

As previously noted, Newfoundland Power Inc. (“Newfoundland Power”) did not oppose any specific capital expenditure proposed in Hydro’s 2023 CBA. Newfoundland Power did express concerns regarding Hydro’s capital planning process and whether it is fulsome enough to assist in providing an efficient and transparent review process. In particular, Newfoundland Power expressed concerns with the volume of supplemental capital applications filed by Hydro over the past number of years and suggested that Hydro should review its capital planning process to attempt to reduce the number or frequency of supplemental capital applications and to enhance transparency by providing a more detailed picture of future capital requirements.

Newfoundland Power’s concerns with the number of supplemental capital applications filed by Hydro appear to stem from its review of Attachment 1 of Hydro’s response to NP-NLH-026 of this proceeding. Newfoundland Power states that Hydro’s response showed that it had filed 48 supplemental capital applications over the last five years, almost 10 per year. However, a closer look at the information Hydro provided in its response indicates that the number of supplemental capital applications that are not customer driven or based on unforeseen events total only 11 over the past five years. Hydro submits the remaining approximately 2 supplemental capital applications per year are not an extraordinary number of supplemental capital applications to expect, particularly when taking into consideration the complexity of the system Hydro is responsible for—generation, transmission, and distribution on not only interconnected systems but also rural systems, combined with aging infrastructure.

Out of the 48 entries for the years 2017–2021, 7 of the entries were top-up applications for Hydro’s Allowance for Unforeseen Items contingency fund. These applications were the result of unforeseen events affecting the electrical system that could not wait for the specific approval of the Board. There were 14 other entries that referenced projects based on customer requests (and the related entry for the customer contribution, which Hydro included in its response to ensure that the total expenditures were accurate); expenditures based on customer requests are also not within Hydro’s sole control for planning purposes. Removal of these supplemental capital applications from the review of that five-year period indicates 27 supplemental applications, approximately 5 per year. However, of the remaining 27 applications, 8 were projects where capital expenditures were necessary due to the unexpected failure of equipment or weather events. Again, these are outside of Hydro’s control and could not have been included in a five-year plan or the applicable capital budget application. A further 8 projects were related to the Holyrood TGS. As noted earlier in this response, the inclusion of proposed projects for the Holyrood TGS in capital budget planning was on a year-to-year basis due to Hydro’s commitment to keeping the Holyrood TGS available as a generating facility for two years following the commissioning of

the Labrador-Island Link. Hydro's proposal in the 2022 Update to extend the operation of the Holyrood TGS for a longer period will have the benefit of being able to determine and include projects for that asset in Hydro's five-year plan for review by the Board and intervenors. Once the unique and/or unforeseen nature of these additional projects is noted, approximately 11 supplemental applications remain, about 2 per year.

Hydro's five-year plans are revised considering evolving asset management practices, asset condition information, operational and system requirements, as well as operating environment factors. As information becomes available, wherever possible, Hydro will update its plan to ensure as much transparency as possible for the Board and intervenors. As the *Reliability and Resource Adequacy Study Review* proceeds and more decisions are made, Hydro will utilize those conclusions in its planning as well.<sup>13</sup>

### ***Labrador Interconnected Group***

The Labrador Interconnected Group's ("LIG") submissions were specific to Hydro's proposed upgrades to the Wabush Terminal Station and transformer capacity at the Jean Lake Terminal Station. The LIG stated that it did not oppose Hydro's proposed capital budget, including these projects.

The LIG noted that these projects were proposed based on Hydro's updated planning criteria. The LIG referenced part a) of Hydro's response to LAB-NLH-005 of this proceeding in which Hydro stated that "Newfoundland and Labrador Hydro ("Hydro") has not explicitly put forward its transmission planning criteria for the Board of Commissioners of Public Utilities ("Board") approval, rather, these criteria form the basis of Hydro's planning practices." The LIG requested that the Board ". . . not make a final determination about Hydro's planning practices. . . until such time as it [Board] can review these changes as a whole."<sup>14</sup>

Hydro submits that Board does not need to review these planning practices independently from the projects and programs proposed, as it is able to review the analysis for capital expenditures, including the impact of the planning criteria, as they are filed.

### ***Consumer Advocate***

The Consumer Advocate, like the other intervenors, did not take issue with Hydro's 2023 CBA specifically. However, the Consumer Advocate noted that ". . . Hydro does not yet have the capability to meet the requirements set out in the Provisional Capital Budget Application Guidelines. . ." <sup>15</sup> In fact, Hydro's 2023 CBA complies with the provisional Capital Budget Application Guidelines ("Guidelines") <sup>16</sup> and conditions for capital budget proposals outlined by the Board in Order No. P.U. 7(2002–2003).<sup>17</sup>

The Board's correspondence, when issuing the Guidelines, noted, "The Board acknowledges that the provisional guidelines will require a new approach which may be challenging to implement fully in 2022. While strict adherence to all aspects of the Guidelines may not be possible, the Board asks that the stakeholders make best efforts to respect the spirit and intent of the Guidelines."<sup>18</sup>

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<sup>13</sup> "2023 Capital Budget Application," Newfoundland and Labrador Hydro, July 13, 2022, vol. I. sch 2. sec. 2.0.

<sup>14</sup> "Submissions of the Labrador Interconnected Group," The Labrador Interconnected Group, November 21, 2022, p. 1.

<sup>15</sup> "Newfoundland and Labrador Hydro – 2023 Capital Budget Application," Office of the Consumer Advocate, November 25, 2022, p. 1

<sup>16</sup> "Capital Budget Application Guidelines (Provisional)," Board of Commissioners of Public Utilities, January 2022.

<sup>17</sup> *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 7(2002–2003), Board of Commissioners of Public Utilities, June 7, 2002.

<sup>18</sup> "Provisional Capital Budget Application Guidelines," Board of Commissioners of Public Utilities, December 20, 2021.

For each program or project proposed within the 2023 CBA, Hydro has endeavoured to provide the evidentiary requirements prescribed in the Guidelines to the best of its ability based on the data available and has strived to meet the spirit and intent of the Guidelines where full adherence is not yet possible. Hydro has provided details of this compliance in the Capital Budget Overview included within its 2023 CBA.<sup>19</sup>

## Conclusion

Hydro submits that the capital work for which Hydro has sought approval in its 2023 CBA is necessary to ensure that Hydro can continue to provide service that is reasonably safe and adequate and just and reasonable as required by Section 37 of the *Act*. Hydro further submits that, as illustrated through the information provided in the 2023 CBA and the process that followed, the proposed projects are necessary to enable its customers to have equitable access to an adequate supply of power and that the proposed projects are the lowest possible cost options consistent with reliable service, as required by the *EPCA*. Hydro notes that none of the intervenors took issue with the projects proposed by Hydro in its 2023 CBA and that many of the issues raised will likely be addressed throughout the separate *Reliability and Resource Adequacy Study Review* proceeding.

Hydro respectfully requests that the Board approve the 2023 CBA as submitted.

Should you have any questions, please contact the undersigned.

Yours truly,

## NEWFOUNDLAND AND LABRADOR HYDRO



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<sup>19</sup> “2023 Capital Budget Application,” Newfoundland and Labrador Hydro, July 13, 2022, vol. I, sch. 1, sec. 1.0.