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HAND DELIVERED

October 29, 2020

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

Dear Ms. Blundon:

**Re: NP 2021 Capital Budget Application – Submission of Newfoundland Power Inc.**

Please find enclosed the original and 9 copies of the Submission of Newfoundland Power in relation to the Company's *2021 Capital Budget Application*.

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

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

Yours truly,

A handwritten signature in blue ink, appearing to read "Kelly Hopkins".

Kelly Hopkins  
Corporate Counsel

Enclosures

c. Shirley Walsh  
Newfoundland and Labrador Hydro

Dennis Browne, Q.C.  
Browne Fitzgerald Morgan & Avis

**Newfoundland Power Inc.**

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**IN THE MATTER OF** the *Public Utilities Act*, (the "Act"); and

**IN THE MATTER OF** capital expenditures and rate base of Newfoundland Power Inc.; 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 2021 Capital Budget of \$111,298,000;
- (b) approving certain capital expenditures related to multi-year projects commencing in 2021; and
- (c) fixing and determining a 2019 rate base of \$1,153,556,000.

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**SUBMISSION  
OF  
NEWFOUNDLAND POWER INC.**

**OCTOBER 29, 2020**

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## 1 **1.0 INTRODUCTION**

2 Newfoundland Power Inc.'s ("Newfoundland Power" or the "Company") *2021 Capital Budget*  
3 *Application* (the "Application") was filed with the Newfoundland and Labrador Board of  
4 Commissioners of Public Utilities (the "Board") on July 9, 2020.

5  
6 The Application seeks an order of the Board: (i) pursuant to Section 41(1) of the *Public Utilities*  
7 *Act*, approving proposed 2021 capital expenditures totalling \$111,298,000; (ii) pursuant to  
8 Section 41(1) of the *Public Utilities Act*, approving proposed 2022 and 2023 capital expenditures  
9 of \$22,233,000; and (iii) pursuant to Section 78 of the *Public Utilities Act*, fixing and  
10 determining Newfoundland Power's average rate base for 2019 in the amount of \$1,153,556,000.

11

## 12 **2.0 OVERVIEW**

13 To provide context for the Board's consideration of the Application, this submission will:  
14 (i) review the legislative framework under which the Application is brought; (ii) address specific  
15 compliance requirements; (iii) summarize the process engaged in by the Board and participants  
16 in consideration of the Application; (iv) address issues raised in the submissions of intervenors;  
17 and (v) conclude with Newfoundland Power's submissions with respect to the Application.

18

## 19 **3.0 LEGISLATIVE FRAMEWORK**

20 Section 37(1) of the *Public Utilities Act* states that a public utility shall provide service and  
21 facilities that are reasonably safe and adequate and just and reasonable. Section 37(1) is a  
22 cornerstone of Newfoundland Power's obligation to serve its customers.

1 Section 3(b) of the *Electrical Power Control Act, 1994* states that all sources and facilities for the  
2 production, transmission, and distribution of power in the province should be managed and  
3 operated in a manner that would result in:

4

- 5 (i) The most efficient production, transmission, and distribution of power;
- 6 (ii) Consumers in the province having equitable access to an adequate supply of  
7 power; and
- 8 (iii) Power being delivered to customers in the province at the lowest possible cost  
9 consistent with reliable service.

10

11 Section 3(b) does not create a hierarchy between these 3 principles; rather, each is equally  
12 important in the management and operation of electrical facilities in the province.

13

14 Section 41(1) of the *Public Utilities Act* requires that Newfoundland Power submit for the  
15 Board's approval an annual capital budget of proposed improvements and additions to its  
16 property.

17

18 Section 41(3) of the *Public Utilities Act* prohibits a utility from proceeding with an improvement  
19 or addition in excess of \$50,000, or a lease in excess of \$5,000 per year, without the Board's  
20 prior approval.

21

22 The principal focus of this proceeding is whether Newfoundland Power's proposal for  
23 \$111.3 million in capital expenditures in 2021, and related expenditures in 2022 and 2023, is

1 reasonably required for it to meet its statutory obligation to serve its approximately 269,000  
2 customers.

3  
4 Newfoundland Power submits that its 2021 Capital Budget represents the expenditures necessary  
5 to maintain its electrical system and to continue meeting its statutory obligations under Section  
6 37(1) of the *Public Utilities Act* and Section 3(b) of the *Electrical Power Control Act, 1994*.

## 7 8 **4.0 COMPLIANCE MATTERS**

### 9 **4.1 Board Orders**

10 In Order No. P.U. 5 (2020) (the “2020 Capital Order”), the Board required specific information  
11 be filed with the Application. The Application complies with the requirements of the 2020  
12 Capital Order.

13  
14 In Order No. P.U. 19 (2003) (the “2003 Rate Order”), the Board required that evidence relating  
15 to deferred charges and a reconciliation of average rate base to invested capital be filed with the  
16 Application. The Application complies with the requirements of the 2003 Rate Order.

17  
18 In Order No. P.U. 35 (2003) (the “2004 Capital Order”), the Board required specific information,  
19 and in particular a five-year capital plan, be provided with the Application. The Application  
20 complies with the requirements of the 2004 Capital Order.

21  
22 In Order No. P.U. 32 (2007) (the “2008 Rate Order”), the Board approved Newfoundland  
23 Power’s calculation of rate base in accordance with the Asset Rate Base Method. The  
24 Application complies with the requirements of the 2008 Rate Order.

1 In Order No. P.U. 2 (2019) (the “2019/2020 Rate Order”), the Board approved a change in the  
2 capitalization of pension expense. The Application complies with the requirements of the  
3 2019/2020 Rate Order.

4

#### 5 **4.2 Capital Budget Application Guidelines**

6 The Board’s Capital Budget Application Guidelines, dated October 2007 (the “Guidelines”),  
7 provide direction on the definition, categorization and evidentiary requirements for proposed  
8 capital expenditures.

9

10 On March 9, 2020, the Board directed certain changes to the capital budget approval process for  
11 the utilities’ 2021 applications. Compliance with the specific changes directed by the Board are  
12 addressed later in this submission.

13

14 In Newfoundland Power’s view, the Application complies with the Guidelines and all applicable  
15 directives of the Board.

16

### 17 **5.0 PROCESS**

#### 18 **5.1 Proceedings of Record**

19 On August 4, 2020, the Board established a schedule for hearing the Application. The schedule  
20 provided for, among other things, the submission of Requests for Information (“RFIs”) on or  
21 before August 19, 2020, with a deadline for response of September 9, 2020.

1 On August 11, 2020, Newfoundland Power provided an introductory presentation on the  
2 Application. The Board, Consumer Advocate and Newfoundland and Labrador Hydro  
3 (“Hydro”) attended the presentation.

4  
5 On August 19, 2020, Newfoundland Power received 12 RFIs issued by the Board, 38 RFIs  
6 issued by Hydro, and 131 RFIs issued by the Consumer Advocate. Newfoundland Power  
7 responded to all 181 RFIs on September 9, 2020.

8  
9 On August 19, 2020, the Consumer Advocate requested a technical conference on the  
10 Application. Following an exchange of correspondence among the Board and the parties to the  
11 Application, the Board directed Newfoundland Power to hold a technical conference with respect  
12 to its proposed *Customer Service System Replacement* project. To ensure timely consideration of  
13 the Application, the Board directed that the *Customer Service System Replacement* project will  
14 proceed separately from the remainder of the Application.

15  
16 This submission therefore addresses all expenditures proposed in the Application, with the  
17 exception of the *Customer Service System Replacement* project.

## 18 19 **5.2 Intervenor’s Submissions**

20 On October 22, 2020, written submissions on the Application were filed by the Consumer  
21 Advocate (the “Consumer Advocate’s Submission”) and Hydro (“Hydro’s Submission”)

22  
23 Sections 6 and 7 outline Newfoundland Power’s responses to the Consumer Advocate’s  
24 Submission and Hydro’s Submission, respectively.

### 1 **5.3 Evidentiary Matters**

2 The Board is legally required to determine issues on the basis of the evidence before it.

3

4 The primary evidence on the record of this proceeding was filed by Newfoundland Power.

5 Newfoundland Power's evidence includes: (i) the Application and supporting schedules;

6 (ii) professional engineering reports and expert evidence filed with the Application; and

7 (iii) responses to 181 RFIs.

8

9 The Application has also been reviewed by Grant Thornton LLP ("Grant Thornton"), the Board's  
10 financial consultants. The Grant Thornton report contains the findings of this review and forms a  
11 part of the evidence before the Board.

12

## 13 **6.0 RESPONSE TO CONSUMER ADVOCATE'S SUBMISSION**

### 14 **6.1 Overview**

15 The Consumer Advocate's Submission does not oppose any specific expenditures proposed in  
16 the Application.

17

18 The Consumer Advocate's Submission includes general comments on: (i) Newfoundland  
19 Power's capital planning process and the current capital expenditure approval process; and (ii)  
20 specific recommendations relating to the sufficiency of the Application and a capital spending  
21 cap.

22

23 The Consumer Advocate's general comments and specific recommendations largely relate to  
24 issues being considered by the Board as part of an ongoing review of the Guidelines. This

1 includes the quantification of risks and customer benefits, capital project prioritization,  
2 benchmarking, asset management and envelope-based approvals of capital expenditures.

3 Reference: Consumer Advocate’s Submission, pages 1 to 5.

4

5 Each of these issues is specifically addressed in a report prepared by Midgard Consulting (the  
6 “Midgard Report”) as part of the ongoing Guidelines review process. None of the  
7 recommendations outlined in the Midgard Report have been adopted by the Board.

8

9 This section outlines Newfoundland Power’s response to both the general comments and specific  
10 recommendations outlined in the Consumer Advocate’s Submission.

11

## 12 **6.2 General Comments**

### 13 **6.2.1 Midgard Report**

#### 14 Consumer Advocate’s Submission

15 The Consumer Advocate’s Submission claims that the recommendations outlined in the Midgard  
16 Report are directly relevant to the Application. The Consumer Advocate submits these  
17 recommendations are relevant because they can be implemented under existing legislation.

18 Reference: Consumer Advocate’s Submission, page 2.

19

#### 20 Evidence

21 Newfoundland Power’s Application was developed to comply with the existing Guidelines and  
22 all applicable directives of the Board.

23 Reference: Application, Volume 1, 2021 Capital Plan, page 3, lines 5 to 12.

1 The Board commenced a process to review the existing Guidelines in 2019. At that time, the  
2 Consumer Advocate proposed that the existing Guidelines should be suspended, with new  
3 guidelines implemented for the utilities' 2021 capital budget applications. The Board rejected  
4 the Consumer Advocate's proposal, stating:

5  
6 *The Board believes that the existing Capital Budget Application Guidelines have*  
7 *allowed for appropriate effective and efficient oversight of capital spending by the*  
8 *utilities in the Province. These guidelines provide a framework for the detailed*  
9 *technical information which must be provided by the utilities to meet the*  
10 *evidentiary burden associated with the annual capital budget applications. The*  
11 *Board does not believe that [it] is practical to suspend the operation of these*  
12 *guidelines for the 2021 capital budget applications but does believe that there are*  
13 *opportunities to make improvements in 2021 while longer-term changes are being*  
14 *considered.*

15  
16 Reference: Correspondence from the Board regarding the 2019 Capital Budget Application  
17 Guidelines Review – Changes for 2021 Capital Budget Applications, dated  
18 February 27, 2020, pages 1 and 3.  
19

20 The Board subsequently directed 3 changes to the capital budget approval process for 2021  
21 applications. First, the Board directed the utilities to hold introductory presentations outlining  
22 the capital budgets proposed for 2021. Newfoundland Power provided an introductory  
23 presentation on the Application to the Board, Consumer Advocate and Hydro on  
24 August 11, 2020.

1 Second, the Board directed the utilities to provide additional information related to the process  
2 for assessing deferral opportunities and why specific projects cannot be deferred. The 2021  
3 Capital Plan included with the Application describes how deferral is considered in  
4 Newfoundland Power’s capital planning process. Schedule B to the Application indicates why  
5 each specific project proposed for 2021 cannot be deferred.

6 Reference: Application, Volume 1, 2021 Capital Plan, Section 2.1.3 Deferral in the Planning  
7 Process, pages 5 to 6; Schedule B.  
8

9 Third, the Board directed the utilities to provide information related to the revenue requirement  
10 impacts of proposed capital projects. This information is provided in the 2021 Capital Plan  
11 included with the Application.

12 Reference: Application, Volume 1, 2021 Capital Plan, Section 2.3 Capital Investment and  
13 Customer Costs, pages 11 to 15.  
14

15 The Consumer Advocate posed capital budget process-related questions to the Board as part of  
16 the RFI process for the Application. These process-related questions are among the matters  
17 addressed in the Midgard Report. In response to the Consumer Advocate’s questions, the Board  
18 stated these questions are not specific to the Application and, as such, that the Board would not  
19 treat these questions as RFIs in the process and would not file responses. The Board further  
20 noted there is a separate ongoing regulatory process to address these matters.

21 Reference: Correspondence from the Board regarding Newfoundland Power Inc. – 2021  
22 Capital Budget Application – Consumer Advocate Requests for Information  
23 CA-PUB-001 and CA-PUB-002, dated August 21, 2020.  
24

25 The separate regulatory process to which the Midgard Report relates is still ongoing. The Board  
26 has not yet determined what recommendations outlined in the Midgard Report, if any, will be  
27 adopted. Whether certain recommendations outlined in the Midgard Report can be adopted  
28 under existing legislation has not yet been determined as part of that process.

1 *Newfoundland Power's Submission*

2 Newfoundland Power submits that the Midgard Report is not relevant to the Board's  
3 consideration of the Application. The Midgard Report pertains to a separate regulatory process.  
4 Its recommendations have not been adopted by the Board and are not intended to apply to the  
5 Application.

6

7 ***6.2.2 Capital Planning at Newfoundland Power***

8 *Consumer Advocate's Submission*

9 The Consumer Advocate's Submission claims that Newfoundland Power senior management  
10 accepts every project submitted by its line managers. The Consumer Advocate comments that  
11 Newfoundland Power has an incentive to undertake projects that are only marginally beneficial  
12 to its customers.

13 Reference: Consumer Advocate's Submission, pages 4 to 5.

14

15 The Consumer Advocate's Submission takes issue with Newfoundland Power's approach to  
16 managing capital expenditures under all economic conditions. The Consumer Advocate claims  
17 that the current economic conditions in the province are a concern for customers, but are no  
18 concern of Newfoundland Power's and no reason to change its business-as-usual approach.

19 Reference: Consumer Advocate's Submission, page 6.

1 Evidence

2 The province's legislative framework requires Newfoundland Power to provide safe and reliable  
3 electrical service to customers at the lowest possible cost. This legislative framework governs  
4 the Company's service delivery under *all* economic conditions.

5  
6 Newfoundland Power implements a comprehensive capital planning process annually to ensure  
7 all proposed projects are consistent with its statutory obligations. The Company's 5-year capital  
8 plan provides the basis of the capital planning process. The 5-year capital plan is reviewed and  
9 updated annually based on sound engineering and objective data. This includes plan updates  
10 based on: (i) the latest inspection data available on plant condition; (ii) the most recent customer,  
11 energy and demand forecast; and (iii) updated assessments of potential customer benefits for  
12 capital projects.

13 Reference: Application, Volume 1, 2021 Capital Plan, Section 2.1.2 Capital Planning  
14 Process, pages 3 to 4.  
15

16 The annual review and updating of Newfoundland Power's 5-year capital plan may practically  
17 result in a project being advanced to an earlier year, deferred to a later year, or removed entirely  
18 from the 5-year plan. This is consistent with the Board's requirement that all viable alternatives,  
19 including deferral, be assessed for capital projects.

20 Reference: Application, Volume 1, 2021 Capital Plan, Section 2.1.3 Deferral in the Planning  
21 Process, pages 5 to 6.  
22

23 The Application provides specific examples of projects that have been deferred as a result of  
24 Newfoundland Power's capital planning process. The 2021 Capital Plan included with the  
25 Application provides 4 examples of capital projects proposed for 2021 that had been deferred as  
26 part of previous planning cycles. For example, the *LED Street Lighting Replacement* project

1 proposed for 2021 was previously deferred to enable a comprehensive assessment of potential  
2 customer benefits. The 2021 Capital Plan also provides 3 examples of capital projects that were  
3 originally planned for 2021, but have been deferred to subsequent planning cycles.

4 Reference: Application, Volume 1, 2021 Capital Plan, Section 2.1.4 Deferred Capital  
5 Projects, pages 7 to 8.  
6

7 Newfoundland Power's capital planning process balances both the cost and quality of the service  
8 provided to customers. Over the 20-year period from 1999 to 2019, Newfoundland Power  
9 improved the service reliability experienced by its customers by over 50%. The Company also  
10 reduced its contribution to customer rates by 20% on an inflation-adjusted basis over this period.  
11 This is consistent with customers' service expectations, as quarterly surveys routinely indicate  
12 the 2 most important issues to customers are reliability and price.

13 Reference: Application, Volume 1, 2021 Capital Plan, Section 2.2 Capital Investment and  
14 Customer Service, pages 9 to 11; Section 2.3 Capital Investment and Customer  
15 Costs, pages 11 to 15; response to Request for Information CA-NP-008, page 1,  
16 lines 9 to 12.  
17

### 18 *Newfoundland Power's Submission*

19 Newfoundland Power submits that the Consumer Advocate's claims regarding the Company's  
20 capital planning process are inaccurate and not reflective of the information on the record of this  
21 proceeding. There is no basis for the Consumer Advocate's claim that Newfoundland Power  
22 accepts all capital projects, nor that the Company is incentivized to undertake projects that are  
23 marginally beneficial for its customers.

1 **6.2.3 Capital Budget Approval Process**

2 Consumer Advocate's Submission

3 The Consumer Advocate's submission claims that, when Newfoundland Power says a project is  
4 needed, it gets approved. The Consumer Advocate's claim is based on an observation that all  
5 capital expenditures proposed by Newfoundland Power over the past 5 years have been approved  
6 by the Board.

7 Reference: Consumer Advocate's Submission, pages 4 to 5.

8

9 Evidence

10 Newfoundland Power's annual capital planning process ensures only projects that are necessary  
11 to provide customers with safe, reliable and least-cost service are proposed for Board approval.

12 Reference: Application, Volume 1, 2021 Capital Plan, page 3, lines 22 to 23.

13

14 Newfoundland Power's annual capital budget applications are prepared in a manner consistent  
15 with the Board's Guidelines. This ensures the Company provides the technical information  
16 required to meet the evidentiary burden of proving capital expenditures are necessary to provide  
17 customers with safe, reliable and least-cost service.

18

19 Newfoundland Power's Submission

20 Newfoundland Power submits that the Consumer Advocate's claims regarding the capital  
21 expenditure approval process are unfounded and ignore the comprehensive information provided  
22 with the Company's annual capital budget applications.

1   **6.3    Specific Recommendations**

2   **6.3.1   Capital Budget Refiling**

3   Consumer Advocate’s Submission

4   The Consumer Advocate’s Submission recommends the Board direct Newfoundland Power to  
5   resubmit its capital budget. The Consumer Advocate’s recommendation for resubmission is  
6   based on a claim that the Application is deficient because it does not quantify risks or customer  
7   benefits in terms of reliability or efficiency improvements, and does not include a prioritized list  
8   of projects.

9   Reference:    Consumer Advocate’s Submission, pages 7 to 8.

10

11   Evidence

12   The Application was developed to comply with the existing Guidelines and all applicable  
13   directives of the Board.

14

15   The quantification of risks and the prioritization of capital projects are not currently a  
16   requirement of the Guidelines or any applicable directive of the Board. Rather, both the  
17   quantification of risks and the prioritization of capital projects are recommendations of the  
18   Midgard Report. These matters are being considered by the Board as part of a separate  
19   proceeding.

20

21   The Application quantifies customer benefits, where appropriate. For example, the existing  
22   Guidelines specifically require that justifiable capital expenditures must show tangible benefits  
23   to ratepayers, such as through a positive Net Present Value (“NPV”) analysis. The Application  
24   includes 2 capital projects justified on the basis that customers will benefit from lower overall

1 costs. These are: (i) the *LED Street Lighting Replacement* project; and (ii) the *2021 Application*  
2 *Enhancements* project. Both of these projects include NPV analyses that quantify the customer  
3 benefits of each. This ensures each project is consistent with the provision of least-cost service  
4 to customers.

5 Reference: Guidelines, page 6 of 11; Application, Volume 1, LED Street Lighting  
6 Replacement Plan, Appendix B; Volume 2, Report 6.1 2021 Application  
7 Enhancements, Appendices A, B and C.  
8

### 9 *Newfoundland Power's Submission*

10 Newfoundland Power submits that the Consumer Advocate's claim that the Application is  
11 deficient is unfounded, dismissive of the existing Guidelines, and not reflective of the  
12 information on the record of this proceeding. The issues raised by the Consumer Advocate are  
13 matters being considered by the Board as part of a separate proceeding. These matters are not  
14 specific to the Application. There is no reasonable basis upon which to require that the  
15 Application be resubmitted.  
16

### 17 **6.3.2 Capital Budget Cap**

#### 18 *Consumer Advocate's Submission*

19 The Consumer Advocate's Submission recommends the Board approve a budget cap limiting  
20 Newfoundland Power's 2021 capital expenditures. The Consumer Advocate specifically  
21 recommends a capital budget cap of \$86.7 million. This amount reflects Newfoundland Power's  
22 approved capital budget for the prior year, less expenditures associated with the *Customer*  
23 *Service System Replacement* project proposed to commence in 2021.

24 Reference: Consumer Advocate's Submission, page 8.

1 Evidence

2 The approval of a cap limiting capital expenditures is not contemplated in the current Guidelines  
3 and is not consistent with past practice of the Board.

4

5 The concept of envelope-based approvals is among the recommendations outlined in the  
6 Midgard Report. The recommendations in the Midgard Report will be considered by the Board  
7 in the Guidelines review process, which is still ongoing. Whether envelope-based approvals are  
8 permissible under Section 41(3) of the *Public Utilities Act* is among the issues being considered  
9 as part of that proceeding.

10 Reference: Request for Information NP-PUB-008 filed in relation to the Guidelines review.

11

12 Furthermore, the Consumer Advocate recommended the Board implement a capital spending cap  
13 as part of the *Reference on Muskrat Falls Rate Mitigation Options and Impacts*. As part of its  
14 Final Report issued in February 2020, the Board stated:

15

16 *In the short-term the Board does not believe that it would be appropriate or in*  
17 *keeping with the principle of least-cost reliable power to implement a prescriptive*  
18 *and arbitrary threshold such as a cap.*

19

20 Reference: The Board's Final Report on Rate Mitigation Options and Impacts: Muskrat Falls  
21 Project, February 7, 2020, pages 45 to 46.

1 *Newfoundland Power's Submission*

2 Newfoundland Power submits that it would not be reasonable or consistent with the least-cost  
3 delivery of reliable service to impose an arbitrary cap on 2021 capital expenditures, as  
4 recommended by the Consumer Advocate.

5

6 **7.0 RESPONSE TO HYDRO'S SUBMISSION**

7 *Hydro's Submission*

8 Hydro's Submission does not oppose any capital expenditures proposed in the Application.

9

10 Hydro's Submission recommends that Newfoundland Power should be required to mechanically  
11 test a representative sample of poles removed from service and report the results of this testing in  
12 its next capital budget application. In making this recommendation, Hydro questions the  
13 robustness of Newfoundland Power's inspection processes for its transmission lines. Hydro  
14 notes that Newfoundland Power has not mechanically tested any of its transmission  
15 infrastructure and submits the Company should begin testing now to compile data that would be  
16 useful for a later review of its practices.

17 Reference: Hydro's Submission, pages 1 to 2.

18

19 *Evidence*

20 Newfoundland Power manages its transmission infrastructure based on the criteria outlined in its  
21 Transmission Inspection and Maintenance Practices. These practices outline the inspection and

1 testing procedures used to determine the integrity of transmission infrastructure, including:

2

3 (i) Sounding tests, which involve striking a pole with a hammer at regular intervals  
4 on all quadrants from the ground line to 2 metres above grade; and

5 (ii) Core sampling tests, which involve using an approved device to drill through the  
6 centreline of the pole to extract a core sample for evaluation.

7

8 These testing procedures allow experienced Transmission and Distribution Planners to obtain the  
9 required information about the condition of poles, including whether replacement is required.

10 Additional mechanical testing is therefore not required.

11 Reference: Response to Request for Information NLH-NP-025, page 1, lines 14 to 28.

12

13 Newfoundland Power's inspection, maintenance and asset management practices were reviewed  
14 by the Board's consultant, The Liberty Consulting Group ("Liberty"), in 2014. Liberty  
15 concluded:

16

17 *Newfoundland Power uses an effective combination of periodic O&M inspection*  
18 *and maintenance programs and capital transmission, distribution, and annual*  
19 *capital substation capital rebuild and modernization projects to address*  
20 *condition, reliability, and operating issues with its transmission, distribution, and*  
21 *substation assets.*

22

23 Reference: Response to Request for Information CA-NP-026, page 2, lines 1 to 5.

1 The specific issue of pole treatment was raised by Hydro during Newfoundland Power's 2020  
2 *Capital Budget Application*. With respect to Newfoundland Power's current Transmission  
3 Inspection and Maintenance Practices, the Board stated:

4

5 *The Board is satisfied that Newfoundland Power's current practices are*  
6 *reasonable in the circumstances. The Board believes that it may be appropriate*  
7 *for Newfoundland Power to review its practices upon the completion of the*  
8 *second inspection cycle in relation to Hydro's test and treat program.*

9

10 Reference: Order No. P.U. 5 (2020), page 22, lines 24 to 27.

11

12 Consistent with the Board's findings, Newfoundland Power intends to review its practices upon  
13 the completion of Hydro's test and treat program. In conducting this review, Newfoundland  
14 Power will seek to understand any customer benefits realized through Hydro's program and  
15 industry best practices for test and treat programs. Whether Newfoundland Power will  
16 implement a program comparable to Hydro's, or a variation of that program, will be determined  
17 upon the completion of Hydro's program.

18

19 There is no information on the record of this proceeding demonstrating that mechanical testing is  
20 necessary in order to undertake a test and treat program. There is also no information on the  
21 record of this proceeding that demonstrates mechanical testing is consistent with good utility  
22 practice or would provide a tangible benefit for Newfoundland Power's customers.

1 Newfoundland Power's Submission

2 Newfoundland Power submits that its Transmission Inspection and Maintenance practices are  
3 consistent with good utility practice.

4

5 Newfoundland Power submits that it would be premature for the Board to direct the Company to  
6 adopt a specific testing program for its transmission assets. Newfoundland Power will conduct a  
7 review of its practices in accordance with the timeframe directed by the Board in 2020. Whether  
8 Newfoundland Power's approach should mirror that of Hydro cannot reasonably be determined  
9 at this time.

10

11 **8.0 CONCLUSIONS**

12 **8.1 Capital Projects**

13 The projects proposed in the Application are necessary to: (i) respond to customer growth and  
14 changes in customer requirements; (ii) replace deteriorated, defective or obsolete equipment;  
15 (iii) respond to legislative and regulatory requirements; (iv) address safety and environmental  
16 issues; and (v) maintain or improve customer service levels and operational efficiency.

17

18 Neither the Consumer Advocate nor Hydro have made submissions challenging specific capital  
19 expenditures proposed in the Application.

20

21 Newfoundland Power's capital planning process ensures the provision of service and facilities  
22 that are reasonably safe and adequate and just and reasonable as mandated by Section 37(1) of  
23 the *Public Utilities Act*. The Company's capital planning process is grounded in sound  
24 engineering and objective data, and is consistent with good utility practice.

1 Newfoundland Power submits there is no evidence before the Board in this proceeding that:

2

3 (i) Contradicts the engineering reflected in the capital projects presented in the 2021  
4 Capital Budget;

5 (ii) Demonstrates reasonable alternatives that were not considered by Newfoundland  
6 Power; or

7 (iii) Demonstrates that not proceeding with a particular capital project is a preferable  
8 alternative.

9

10 Newfoundland Power submits the Application represents the capital expenditures required to  
11 meet its statutory obligations, including the delivery of electrical power to customers at the  
12 lowest possible cost consistent with reliable service.

13

14 Excluding expenditures related to the *Customer Service System Replacement* project, the  
15 Application seeks approval of: (i) proposed 2021 capital expenditures of \$101,395,000; and (ii)  
16 proposed 2022 and 2023 capital expenditures of \$490,000. Pursuant to Section 41 of the *Public*  
17 *Utilities Act*, these proposed expenditures should be approved by the Board.

18

## 19 **8.2 Rate Base**

20 Newfoundland Power has requested that the Board fix and determine the 2019 average rate base  
21 for the purpose of regulatory continuity and certainty, in the same manner as the Board has  
22 exercised this regulatory supervisory power since 1999.

23 Reference: Order No. P.U. 24 (2000-2001).

1 The calculation of Newfoundland Power’s actual average rate base for 2019 is shown in  
2 Schedule D to the Application.

3  
4 The Board’s financial consultants, Grant Thornton, have reviewed the calculation of  
5 Newfoundland Power’s 2019 actual average rate base and confirmed that it is accurate and in  
6 accordance with established practice and Board Orders.

7 Reference: Grant Thornton, Letter to the Board re *Newfoundland Power Inc. - 2021 Capital*  
8 *Budget Application - Grant Thornton Report*, September 10, 2020.  
9

10 Based upon the evidence before the Board, and pursuant to Section 78 of the *Public Utilities Act*,  
11 the Board should fix and determine Newfoundland Power’s average rate base for 2019 at  
12 \$1,153,556,000.

13  
14 **RESPECTFULLY SUBMITTED** at St. John’s, Newfoundland and Labrador, this 29<sup>th</sup> day of  
15 October, 2020.

16  
17  
18 

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