

October 21, 2021

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

Attention: Ms. Cheryl Blundon
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Newfoundland Power Inc. – 2022 Capital Budget Application – Newfoundland and Labrador Hydro's Submissions

On May 18, 2021, Newfoundland Power Inc. ("Newfoundland Power") filed its 2022 Capital Budget Application ("CBA") with the Board of Commissioners of Public Utilities ("Board"). On June 22, 2021, Newfoundland and Labrador Hydro ("Hydro") filed its Notice of Intention to Participate and subsequently issued requests for information ("RFI") for additional detail on certain aspects of the CBA. The following are Hydro's comments with respect to Newfoundland Power's 2022 CBA.

Generally, Hydro notes that the total cost of the proposed projects in Newfoundland Power's 2022 CBA of \$109.7 million reflects a continuing pattern of growth in capital investments in spite of declining energy sales and strong reliability performance. Newfoundland Power's 5-year plan indicates the pattern of annual increases in capital investment is projected to continue with forecast capital investments increasing to \$122.3 million in 2023, \$124.7 million in 2024, \$128.1 million in 2025 and \$128.4 million in 2026. Hydro has concern with respect to the level of capital investment in light of the current operating environment and the anticipated rate pressures and is unsure of the adequacy of the steps taken by Newfoundland Power to manage its capital investment levels and associated impact on customers. Indeed, in its response to RFI PUB-NP-006, Newfoundland Power noted that it "... has not changed or modified how it considers the deferral of capital projects in its planning process given the current pressures on customer rates."

Hydro notes that in its Order regarding Newfoundland Power's 2018 CBA, the Board referenced Newfoundland Power's statement that overall planned capital expenditures for the 5-year period from 2018 through 2022 were expected to be lower than those in the prior 5-year period.¹ However, even with a reduction in customer load requirements in recent years and the conclusion of the Automatic Meter Reading ("AMR") project,² the average approved Newfoundland Power capital budget over the period 2018–2022 did not decline as it was approximately \$100.7 million,³ approximately 4.6% higher

¹ Order No. P.U. 37(2017), p. 4/32–34.

² Newfoundland Power indicated in its 2018 CBA proceeding that that distribution capital expenditures in 2018 and beyond were expected to reflect reduced new customer connections and lower expenditures for meters with the deployment of AMR meters completed in 2017. Order No. P.U. 37(2017), p. 3/13–16.

³ Newfoundland Power's response to RFI CA-NP-001 providing the approved capital budgets for each year.

than that approved for the period 2013–2017. The forecast average capital budget for 2023–2026 is \$125.9 million,⁴ an approximate 25% increase over the most recent 5 years.

The overall growth in capital spending by Newfoundland Power does not appear to reflect a concerted effort to balance cost management and the provision of reliable service.

Sandy Brook Plant Penstock Replacement

Hydro has reviewed Newfoundland Power’s proposal with respect to the Sandy Brook Plant Penstock Replacement project, as well as Newfoundland Power’s replies to RFIs regarding the project. Hydro believes that this project is justified based on the information presented and supports this proposed project.

Conclusion

The historic and forecast growth in Newfoundland Power’s capital expenditures is concerning. Due to the anticipated rate pressures on customers, and the already high level of customer reliability experienced by the customers of Newfoundland Power, Hydro believes the Board should require Newfoundland Power to undertake a demonstrable effort to reduce its forecast capital expenditures for the next 5 years, and report back to the Board on the results of this initiative in its next CBA.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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⁴ A forecast average of 6% per year.