Newfoundland & Labrador
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

IN THE MATTER OF THE
2015 CAPITAL BUDGET APPLICATION
FILED BY
NEWFOUNDLAND POWER INC.

DECISION AND ORDER
OF THE BOARD
ORDER NO. P.U. 40(2014)

BEFORE:

Andy Wells
Chair and Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

Dwanda Newman, LL.B.
Commissioner

James Oxford
Commissioner
NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AN ORDER OF THE BOARD

NO. P.U. 40(2014)

IN THE MATTER OF the Electrical Power
Control Act, 1994, SNL 1994, Chapter E-5.1 (the
"EPCA") and the Public Utilities Act, RSNL 1990,
Chapter P-47 (the "Act"), as amended, and
regulations thereunder; 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 its 2015 Capital Budget of
$94,211,000;
(b) multi-year projects involving future capital
expenditures of $19,804,000; and
(c) fixing and determining its average rate base
for 2013 in the amount of $915,820,000.

BEFORE:

Andy Wells
Chair & Chief Executive Officer

Darlene Whalen, P. Eng
Vice-Chair

Dwanda Newman, LLB
Commissioner

James Oxford
Commissioner
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I BACKGROUND

1. The Application

Newfoundland Power Inc. ("Newfoundland Power") filed its 2015 Capital Budget Application (the "Application") with the Board of Commissioners of Public Utilities (the "Board") on June 26, 2014. In the Application Newfoundland Power requests that the Board make an Order:

a) approving Newfoundland Power's purchase and construction in 2015 of the improvements and additions to its property in the amount of $94,211,000;

b) multi-year projects involving future capital expenditures of $19,804,000; and

c) fixing and determining Newfoundland Power's average rate base for 2013 in the amount of $915,820,000.

In accordance with the legislation, regulations and Board guidelines the Application includes a detailed explanation of each proposed expenditure, setting out a description, justification, costing methodology and future commitments, if applicable. Additional studies and reports, including detailed engineering reports, are provided in relation to a number of projects.

In compliance with previous Board Orders the Application also includes specific information required to be filed, including a report on 2014 capital expenditures, a five-year capital plan, as well as evidence relating to deferred charges and a reconciliation of average rate base to invested capital.

2. Board Authority

Section 41 of the Act requires a public utility to submit an annual capital budget of proposed improvements or additions to its property for approval of the Board no later than December 15th in each year for the next calendar year. In addition, the utility is also required to include an estimate of contributions toward the cost of improvements or additions to its property which the utility intends to demand from its customers.

Subsection 41(3) prohibits a utility from proceeding with the construction, purchase or lease of improvements or additions to its property without the prior approval of the Board where (a) the cost of the construction or purchase is in excess of $50,000, or (b) the cost of the lease is in excess of $5,000 in a year of the lease.

Section 78 gives the Board the authority to fix and determine the rate base for the service provided or supplied to the public by the utility and also gives the Board the power to revise the rate base. Section 78 also provides the Board with guidance on the elements that may be included in the rate base.
3. Application Process

Notice of the Application, including an invitation to participate, was published on July 2, 2014. Details of the Application and supporting documentation were posted on the Board’s website.

Intervenor submissions were received from the Consumer Advocate Mr. Thomas Johnson, Newfoundland and Labrador Hydro (“Hydro”) and Mr. Danny Dumaresque. On July 18, 2014 a total of 55 Requests for Information (“RFIs”) were issued to Newfoundland Power by the Consumer Advocate, Hydro and the Board. An additional 19 RFIs were issued by Mr. Dumaresque on July 22, 2014. Newfoundland Power responded to the RFIs on July 30, 2014. The intervenors did not file additional evidence and did not request a technical conference or oral hearing of the Application. Written submissions were filed by the intervenors on August 5, 2014 and Newfoundland Power filed its reply submission on August 8, 2014.

Grant Thornton, the Board’s financial consultants, were retained to review the calculations of the 2013 actual average rate base. Grant Thornton filed a report on July 31, 2014 and copies were provided to Newfoundland Power, Mr. Dumaresque, the Consumer Advocate and Hydro.
II PROPOSED 2015 CAPITAL BUDGET

1. Overview

Newfoundland Power’s proposed 2015 capital budget is $94,211,000. The estimated expenditures by asset class are as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Budget (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Generation - Hydro</td>
<td>$4,698</td>
</tr>
<tr>
<td>2. Generation - Thermal</td>
<td>216</td>
</tr>
<tr>
<td>3. Substations</td>
<td>22,478</td>
</tr>
<tr>
<td>4. Transmission</td>
<td>5,731</td>
</tr>
<tr>
<td>5. Distribution</td>
<td>42,473</td>
</tr>
<tr>
<td>6. General Property</td>
<td>3,224</td>
</tr>
<tr>
<td>7. Transportation</td>
<td>2,917</td>
</tr>
<tr>
<td>8. Telecommunications</td>
<td>123</td>
</tr>
<tr>
<td>9. Information Systems</td>
<td>7,501</td>
</tr>
<tr>
<td>10. Unforeseen Allowance</td>
<td>750</td>
</tr>
<tr>
<td>11. General Expenses Capitalized</td>
<td>4,100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$94,211</strong></td>
</tr>
</tbody>
</table>

2. Evidence and Submissions

Newfoundland Power provided detailed information supporting the overall capital budget for 2015 as well as the individual proposed expenditures. The supporting information for each of the projects is comprehensive and consistent with the level of information filed in recent capital budget applications and in accordance with the Board’s Capital Budget Guidelines.

The Application proposes a 2015 capital expenditure of $94,211,000. The Application also includes five multi-year projects involving future capital expenditures of $19,804,000. The Application states that approximately 48% of the proposed 2015 capital expenditures is related to the replacement of plant and a further 36% is required to meet Newfoundland Power’s obligation to serve new customers and meet the requirement for increased system capacity. The remaining 16% of forecast expenditures is related to information systems, general expenses capitalized, third party requirements and financial carrying costs.

Distribution capital expenditures, as in previous years, accounts for the greatest percentage of overall expenditures. According to Newfoundland Power these expenditures are primarily driven by customer requests for new connections to the system. Newfoundland Power advises that, while distribution capital expenditures to address reliability have been reduced in recent years, the Distribution Reliability Initiative will address reliability issues associated with two urban feeders in 2015.
Capital expenditures are planned in 2015 for certain substations to address customer load growth. Newfoundland Power plans to install new power transformers at Clarenville, Lethbridge and at the Kenmount Substation, St. John’s.

Transmission line rebuilds are proposed in 2015 for four lines in the City of St. John’s and one line in the Stephenville area. Newfoundland Power advises that these transmission lines are deteriorated and have reached a point where continued maintenance is no longer feasible.

In 2015 Newfoundland Power has proposed a two-year project to replace the penstock at the Pierre’s Brook hydro plant and single-year projects to refurbish the Seal Cove and Tors Cove hydro plants.

According to the 2015 Capital Plan annual capital expenditures for the next five years (2015-2019) are forecast to average approximately $97 million, with a low of $93.2 million in 2018 and a high of $106.7 million in 2016. Newfoundland Power states that this level of annual expenditure is broadly consistent with inflation adjusted annual expenditures for the previous five years. The replacement of plant has been, and will continue to be, the dominant driver of Newfoundland Power’s planned capital expenditures, accounting for approximately 50% of total expenditure for the 10-year period from 2010 through 2019. During the same time period, capital expenditures to meet increased customer connections and electricity sales account for 33% of total expenditures.

The Consumer Advocate submits that increasing levels of planned capital expenditures reinforces the imperative that approval should only be given to projects demonstrated to be necessary for Newfoundland Power to provide service at the lowest possible cost while still providing reliable service. The Consumer Advocate also states that all projects and expenditures should consider the impact of the Muskrat Falls project and whether the project or construction will be required at its current level of use after interconnection. The Consumer Advocate raised specific concerns and objections in relation to three proposed projects: i) Transportation; ii) Application Enhancements-Property Records Management System Improvements/Inventory Management; and, iii) Pierre’s Brook Hydro Plant.

Hydra submits that the Board should delay its consideration of the Pierre’s Brook project until further assessment of the implications of the Muskrat Falls power purchase agreement and marginal cost can be completed.

Mr. Dumaresque submits that there will be surplus power in the near and long term future and urges the Board to reject all capital requested by Newfoundland Power. He did not make any submissions on specific projects.

3. Board Findings

The Board has reviewed the evidence filed in support of the proposed 2015 capital budget and each of the proposed capital expenditures in excess of $50,000. The Board notes that the evidence shows that Newfoundland Power’s inflation adjusted capital spending level over the period 2010 to 2019(F) is trending gradually upward with two years of somewhat higher
spending in 2014(F) and 2016. The average annual capital expenditures over the period 2010 to 2014 expressed in 2014 dollars was $87,584,000. (PUB-NP-003) The Board notes Mr. Dumaresque’s request that all capital projects be rejected but agrees with Newfoundland Power that the timing, necessity and appropriateness of the investment to meet the obligation to serve on a least cost basis involves sound engineering judgment. Newfoundland Power has provided comprehensive evidence in support of the proposed capital expenditures and submits that no other evidence was presented to contradict this evidence.

The Board finds that Newfoundland Power has demonstrated that the replacement of plant and capital expenditures necessary to satisfy customer growth and to meet the requirements of increased system capacity are the main drivers for the proposed capital spending. The Board has examined each of projects proposed by Newfoundland Power and is satisfied that, with the exception of the three projects which are specifically addressed below, the proposed capital projects are adequately justified and are appropriate and necessary in the circumstances.

**Transportation ($2,917,000)**

Newfoundland Power states that transportation capital expenditures from 2015 through 2019 are expected to increase to an average of approximately $3.2 million annually, an increase of $600,000 per year from 2010 through 2014. The increase is principally reflective of inflation and the number of heavy fleet and passenger vehicles expected to meet the replacement parameters during that period, as well as a plan to increase the heavy fleet from 72 units to 79 units. Newfoundland Power states that increasing the heavy fleet will improve efficiency and will accommodate the increase in the number of journeyperson powerline technicians resulting from the advancement of apprentices and the reduction in the number of three-person crews.

The Consumer Advocate notes that while Newfoundland Power has criteria for vehicle replacement, it does not provide any current information on the criteria used by other Canadian utilities. The Consumer Advocate submits that the vehicle replacement practices of other utilities should be considered. Transportation is an ongoing cost for which there is no reference to standards employed by the electric utility industry to determine if the approach taken by Newfoundland Power is reasonable. The Consumer Advocate notes that Hydro is required to provide information in relation to the vehicle replacement policy of other Canadian utilities with its capital budget application and Newfoundland Power should be required to do the same on a go forward basis.

Newfoundland Power notes that the Consumer Advocate does not oppose the proposed vehicle replacements for 2015. Newfoundland Power states that replacement of vehicles is based upon assessment of the condition of individual vehicles, and not on age and mileage thresholds. Newfoundland Power submits that the information on vehicle age and mileage criteria provided in Hydro’s capital budget application is not relevant to the Board’s consideration of its 2015 proposed vehicle replacements.

The Board notes that Newfoundland Power uses age and mileage thresholds as two of its criteria in the determination of whether a vehicle should be replaced. As set out in CA-NP-07 vehicles reaching age and mileage thresholds are also evaluated on a number of factors, such as overall
condition, maintenance history and immediate repair requirements, to determine whether they have reached the end of their useful service lives. The Board is satisfied that the 2015 vehicle replacements are justified based on the evidence that Newfoundland Power has determined that they will reach the end of their useful lives in 2015. The project will be approved as proposed.

The Board sees merit in requiring information in relation to the vehicle replacement criteria of other Canadian utilities. In its next capital budget application where expenditures are proposed in relation to vehicle replacements, Newfoundland Power will be expected to provide information on the vehicle replacement policies for other Canadian utilities.

**Application Enhancements-Property Records Management System Improvements/Inventory Management ($151,000 and $394,000)**

Newfoundland Power proposes a capital expenditure in the amount of $151,000 to replace the current application used to manage its real property records. Approximately 20,000 files related to property records are stored at the head office. The current application for managing these files is over 20 years old and requires employees to manually retrieve and copy the original paper record. Newfoundland Power submits the project to replace this application will improve efficiency by reducing the manual effort required to provide access to property records. The project will also reduce the risk associated with loss or damage to the paper records by replacing them with electronic versions.

The Consumer Advocate submits that more evidence justifying the need for this project is required. The Consumer Advocate states that Newfoundland Power has no information as to how frequently the vault where the physical documents are kept is accessed during a day or a week.

Newfoundland Power states that the current application is used on a daily basis and estimates that the new application will enable 7 to 8 hours of weekly labour savings, in addition to maintaining the integrity of the property records. Newfoundland Power explains that the project has a positive net present value of $17,000 over an expected application life-cycle of 10 years, providing a tangible benefit for ratepayers. Newfoundland Power submits that the project is justified and should be approved.

Newfoundland Power also proposes capital expenditures in the amount of $394,000 to implement a number of enhancements to its inventory management systems. These include: (i) the use of Radio Frequency Identification technology in the management of tools and equipment used in field operations; (ii) improvements to the tracking of inventory leaving the warehouse via heavy fleet vehicles; and (iii) enhancements to the updating of corporate applications required as a result of work completed in the field. Newfoundland Power submits that this project will improve tool management and assignment procedures using Radio Frequency Identification technology to track tool location and condition, ensuring crews are able to effectively perform their work. It will improve inventory management processes by automatically verifying that truck inventory items are correct as trucks leave supply yards, ensuring that crews have the right materials when they arrive at the job site. The project will also improve operational efficiency and customer service by automating the dispatch of customer service work orders to field crews and eliminating the manual updating of corporate applications with records of completed work.
The Consumer Advocate states that there is very little to justify this project. He notes there are no records of actual incidents of required materials and/or tools not being available when required and it is difficult to determine how often this is an issue with the current system. He further submits that it is not clear how the new system will alleviate the concern that materials or tools may be utilized overnight which may be required the next morning. The Consumer Advocate submits that this project should be rejected.

Newfoundland Power states that the problem of materials and tools not being on trucks is a common occurrence and that it is also common that materials stocked on a truck the day before a planned job are used overnight and need to be replenished. The project will replace what has been a largely manual process with automatic verification of truck inventory. Newfoundland Power states that the project has a positive net present value of $47,000 over an expected application life-cycle of 10 years and should be approved.

The Board notes the positive improvements these projects will make to Newfoundland Power employee work processes with benefits in record retention, retrieval and maintenance, and operational efficiencies. In terms of the data on the number of times the vault is accessed or that tools are not available, the Board is satisfied that Newfoundland Power has provided sufficient evidence and that additional information is not required. The Board also notes the positive net present value of the projects, which is to the benefit of ratepayers. These projects will be approved as proposed.

Pierre’s Brook Hydro Plant ($14,280,000)

Newfoundland Power proposes a two-year project to replace and refurbish the 2,533 m penstock and refurbish the surge tank at the Pierre’s Brook hydroelectric generating plant (“Pierre’s Brook Plant”), located on the Avalon Peninsula near the community of Witless Bay. The Pierre’s Brook Plant provides 3.4 MW of capacity and 24.4 GWh of annual energy production. Engineering design and procurement work for the penstock and site preparation work including access roads will be completed in 2015. The replacement of the woodstave section of the penstock and the refurbishment of both the steel section of the penstock and the surge tank will take place in 2016. The total estimated capital expenditure is $14,280,000, with $750,000 to be spent in 2015 and $13,530,000 in 2016.

This project is justified by Newfoundland Power on the basis of independent engineering assessments, which found that the 2,470 m woodstave penstock installed in 1965 has reached the end of its useful life and requires replacement. The 63 m steel section of the penstock is in good condition with the exception of the exterior coating and concrete foundations, which require refurbishment. Routine inspections of the surge tank in early 2013 identified certain deficiencies and safety issues which Newfoundland Power is proposing be addressed during the same plant outage required for the penstock replacement in 2016. Additional work is also planned for 2016 for the Pierre’s Brook Plant to coincide with the planned outage, including switchgear upgrades, protection and control upgrades and refurbishment of the Gull Pond forebay dam. According to Newfoundland Power these projects have an estimated total expenditure of $1.58 million which is not part of this Application but will be included in the 2016 capital budget application.
Newfoundland Power states that the present worth feasibility analysis of projected capital and operating expenditures for the Pierre’s Brook Plant determined that the levelized cost of energy from the plant over the next 50 years is 4.87¢ per kWh. Newfoundland Power states that this is significantly less than the cost of replacement energy at the Holyrood Thermal Generation Station, which is estimated at 16.76¢ per kWh. Newfoundland Power submits that this project is the least cost alternative on the basis of current marginal energy costs for the Island Interconnected system and also the energy costs associated with power purchase agreements with arms-length parties.

Hydro notes in its submission that the Pierre’s Brook Plant is part of the overall system capability of the Island Interconnected system and is reflected in Hydro’s supply planning, providing both capacity and energy benefits to existing customers. According to Hydro, while the levelized cost of energy 4.87¢ per kWh for the Pierre’s Brook Plant is less than the most current available estimate of marginal energy cost for the Island Interconnected system, there is uncertainty with respect to the marginal costs on the Island Interconnected system beyond 2017.

Hydro states:

\[ \text{Hydro believes that “the marginal cost of demand and energy should reflect the commercial arrangements between Nalcor and Hydro for costs of electricity from Muskrat Falls and for the costs of the new transmission infrastructure. After those arrangements have been finalized, a marginal cost study would be required to determine Hydro’s future marginal costs of demand and energy.”} \]

According to Hydro there is relevant information not yet provided to the Board that may influence the decision in determining if approval of the Pierre’s Brook project is consistent with the provision of least cost service. Hydro submits that the Board should delay its consideration for approval of the Pierre’s Brook project until Newfoundland Power and Hydro further assess the implications of the Muskrat Falls power purchase agreement dated November 29, 2013.

The Consumer Advocate submits that Newfoundland Power has not adequately evaluated alternatives to the project, including plant retirement, life extension or a complete rebuild of the plant in light of the age of the plant. According to the Consumer Advocate the absence of such an evaluation makes it difficult to assess how the project will maximize the benefits of this renewable resource for Newfoundland Power customers. The Consumer Advocate states that these alternatives should be evaluated on the basis of the recently available Muskrat Falls power purchase agreement. The Consumer Advocate submits that Newfoundland Power should fully assess the implications of this agreement on marginal costs to ensure customers receive the benefit of an evaluation based on the most relevant information available. The Consumer Advocate suggests that the cost for this project of $4200/kW appears high when compared to the cost for Hydro’s 100 MW combustion turbine project of $1052/kW. The Consumer Advocate submits that the Board should reject this project and order Newfoundland Power to submit a complete assessment of the alternatives to this project. A delay until such a study is completed is, according to the Consumer Advocate, “the prudent and reasonable approach during this period of significantly increasing electricity rates”. The Consumer Advocate also states:

1 Hydro refers to its response to CA-NLH-033 filed in its General Rate Application Proceeding.
Further, given that there may be a number of these types of hydro rehabilitation projects on the horizon for both Newfoundland Power and Hydro, the Consumer Advocate recommends that an evaluation framework and methodology be developed by Hydro and Newfoundland Power in an effort to standardize and expedite the evaluation process for such projects in the future. The Pierre’s Brook plant should be the first to be evaluated under this framework and methodology.

In its submission Newfoundland Power states that the proposed project to refurbish the Pierre’s Brook Plant has been evaluated against the reasonable alternatives, including the most current publicly available estimates of Hydro’s marginal costs and Hydro’s power purchase agreements with arms length parties. These alternatives all indicate energy costs higher than the 4.87¢ per kWh associated with the refurbishment and continued operation of the Pierre’s Brook Plant. Newfoundland Power notes that the evidence filed by Hydro in its 2013 general rate application sets out marginal cost estimates for the Island Interconnected system ranging from 5.4¢ per kWh in 2018 to 7.2¢ per kWh in 2022. Newfoundland Power also submits that the final costs associated with the Muskrat Falls project will not be certain for a number of years and there is no evidence that the accuracy of Hydro's marginal cost estimate will be materially improved by further analysis at this time. Newfoundland Power also notes that the inter-utility planning committee considered the cost of energy associated with the refurbishment and continued operation of the Pierre’s Brook Plant.

The Board notes the engineering assessment completed by AMEC found the woodstave penstock section to be in overall poor condition and recommended it be replaced. If there is a catastrophic failure of the penstock the required repairs would have to be done under unplanned conditions and would most likely result in higher costs and longer outages. The Board is satisfied, based on the evidence, that the project is necessary to ensure continued operation of the Pierre’s Brook Plant. The issue for the Board is whether the project as proposed is consistent with the provision of least-cost service.

Hydro suggests that consideration of approval of this project should be delayed until Newfoundland Power and Hydro further assess the implications of the Muskrat Falls power purchase agreement dated November 29, 2013. The Board notes that it appears, based on the evidence (NLH-NP-007 1st Revision), that the project has already been considered in the context of joint planning between the utilities. An excerpt from the May 20, 2014 meeting minutes of the Inter-Utility System Planning and Reliability Committee were provided in the response to NLH-NP-007. These minutes document the view of the committee that the levelized energy costs of 4.9¢ per kWh for the Pierre’s Brook plant project “compare favourably to both Holyrood avoided fuel cost and the expected range on the future cost of supply.” This meeting was held almost six months after the power purchase agreement was signed.

Hydro also states that further information may be provided to the Board at some later date that may influence the determination by the Board on the least-cost assessment for this project. According to Hydro an updated marginal cost study is required which would reflect the commercial arrangements between Nalcor and Hydro for the costs of electricity from Muskrat Falls and for the costs of the new transmission infrastructure, once these arrangements are finalized. No indication was provided by Hydro in this proceeding on the status of the commercial arrangements between Nalcor and Hydro or on whether the updated marginal cost
study is underway. In the Board’s view, in the absence of this information and in the context of
the need to address the conditions of the penstock and surge tank at the Pierre’s Brook Plant, the
proposed capital project is justified on the basis of the most current available information,
including the system marginal costs.

The Board does not agree with the Consumer Advocate’s position that Newfoundland Power has
not properly evaluated this project against the alternatives or with his assertion that the cost of
this project appears high. The Pierre’s Brook Plant is part of the overall system capability of the
Island Interconnected system and should be evaluated against supply costs of, and alternatives
available, for future supply on the Island Interconnected system. It is clear from the evidence that
Newfoundland Power properly assessed the project on this basis using the most current available
estimates of marginal energy cost for the Island Interconnected system. Further, the marginal
cost estimates for the Island Interconnected system provided by Hydro in its general rate
application are well above the levelized energy cost identified by Newfoundland Power for the
Pierre’s Brook Plant of 4.87¢ per kWh.

In addition the Board notes that Newfoundland Power provided evidence in relation to additional
system benefits which the Pierre’s Brook Plant provides to the Island Interconnected system. In
response to PUB-NP-004 Newfoundland Power explains that this plant provides voltage support
to the system, and, in an emergency, can provide service to some customers while the high
voltage system is being restored. Newfoundland Power also explains that there are system
reliability benefits after interconnection with Muskrat Falls. The Board finds that the evidence
demonstrates that the Pierre’s Brook Plant continues to be an important part of the overall system
capability on the Island Interconnected system.

The Board finds that, based on the evidence, the proposed project for the Pierre’s Brook Plant is
necessary to ensure the continued safe operation of the facility and is consistent with the
provision of least-cost service.

4. Conclusion

The Board finds that the proposed purchases and construction projects in excess of $50,000,
including the multi-year projects proposed to start in 2015, are prudent, reasonable and necessary
for Newfoundland Power to continue to provide safe and reliable service and should be
approved. The Board also finds that the proposed total capital budget for 2015 is prudent and
reasonable and will, therefore, approve Newfoundland Power’s 2015 Capital Budget in the
amount of $94,211,000.
### III. 2013 AVERAGE RATE BASE

The following table shows the calculation of the actual average rate base for 2013 compared with 2012:

<table>
<thead>
<tr>
<th></th>
<th>2013 (000s)</th>
<th>2012 (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Plant Investment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant Investment</td>
<td>$1,501,729</td>
<td>$1,439,646</td>
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<tr>
<td>Accumulated Amortization</td>
<td>(623,645)</td>
<td>(602,616)</td>
</tr>
<tr>
<td>Contributions in Aid of Construction</td>
<td>(31,911)</td>
<td>(31,006)</td>
</tr>
<tr>
<td></td>
<td>846,173</td>
<td>806,024</td>
</tr>
<tr>
<td><strong>Additions to Rate Base</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred Pension Costs</td>
<td>101,159</td>
<td>100,113</td>
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<tr>
<td>Credit Facility Costs</td>
<td>-</td>
<td>239</td>
</tr>
<tr>
<td>Cost Recovery Deferral – Seasonal/TOD Rates</td>
<td>95</td>
<td>93</td>
</tr>
<tr>
<td>Cost Recovery Deferral – Hearing Costs</td>
<td>644</td>
<td>-</td>
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<tr>
<td>Cost Recovery Deferral – Regulatory Amortizations</td>
<td>2,214</td>
<td>3,320</td>
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<tr>
<td>Cost Recovery Deferral – 2012 Cost of Capital</td>
<td>1,177</td>
<td>1,766</td>
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<tr>
<td>Cost Recovery Deferral – 2013 Revenue Shortfall</td>
<td>2,252</td>
<td>-</td>
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<tr>
<td>Cost Recovery Deferral – Conservation</td>
<td>2,085</td>
<td>227</td>
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<tr>
<td>Customer Finance Programs</td>
<td>1,363</td>
<td>1,446</td>
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<tr>
<td></td>
<td>110,989</td>
<td>107,204</td>
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<tr>
<td><strong>Deductions from Rate Base</strong></td>
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<td></td>
</tr>
<tr>
<td>Weather Normalization Reserve</td>
<td>5,058</td>
<td>4,804</td>
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<tr>
<td>Other Post Employment Benefits</td>
<td>23,515</td>
<td>14,617</td>
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<tr>
<td>Customer Security Deposits</td>
<td>840</td>
<td>851</td>
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<tr>
<td>Accrued Pension Obligation</td>
<td>4,325</td>
<td>4,020</td>
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<tr>
<td>Accumulated Deferred Income Taxes</td>
<td>1,872</td>
<td>2,504</td>
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<tr>
<td>Demand Management Incentive Account</td>
<td>(272)</td>
<td>558</td>
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<tr>
<td></td>
<td>35,338</td>
<td>27,354</td>
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<tr>
<td><strong>Year End Rate Base</strong></td>
<td>921,824</td>
<td>885,874</td>
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<tr>
<td><strong>Average Rate Base Before Allowances</strong></td>
<td>903,849</td>
<td>867,902</td>
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<td><strong>Rate Base Allowances</strong></td>
<td></td>
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<tr>
<td>Materials and Supplies Allowance</td>
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<td>5,332</td>
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<td>Cash Working Capital Allowance</td>
<td>6,526</td>
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<td><strong>Average Rate Base at Year End</strong></td>
<td>$915,820</td>
<td>$883,045</td>
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Source: Application, Schedule D

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2 For 2013, the unamortized credit facility costs are included as a component of the Company's weighted average cost of capital and are therefore excluded from the calculation of average rate base. The exclusion of deferred credit facility costs adjusts the 2013 calculation of average rate base filed in Return 3 of Newfoundland Power's 2013 Annual Report to the Board.

3 This differs from the materials and supplies allowance included in the 2013 calculation of average rate base as filed in Return 3 of Newfoundland Power's 2013 Annual Report to the Board. The materials and supplies allowance included in Return 3 of the 2013 Annual report understated the final material and supplies costs for 2013.
Grant Thornton reviewed the calculation of the actual average rate base for 2013 and provided an opinion that the calculation is accurate and in accordance with established practice and previous Board Orders. Grant Thornton also reviewed the additions, deductions and allowances included in the rate base and found no discrepancies or unusual items or non-compliance with Board Orders.

The Board will approve all of the components of Newfoundland Power's average rate base for 2013 in the amount of $915,820,000.
IV ORDER

IT IS THEREFORE ORDERED THAT:

1. Newfoundland Power's proposed construction and purchase of improvements or additions to its property to be completed in 2015, as set out in Schedule A to this Order, are approved.

2. Newfoundland Power's proposed multi-year construction and purchase of improvements or additions to its property to begin in 2015, as set out in Schedule B to this Order, are approved.

3. Newfoundland Power's 2015 Capital Budget for improvements or additions to its property in an amount of $94,211,000, as set out in Schedule C to this Order, is approved.

4. Newfoundland Power's average rate base for the year ending December 31, 2013 is hereby fixed and determined at $915,820,000.

5. Unless otherwise directed by the Board, Newfoundland Power shall file an annual report to the Board on its 2015 capital expenditures by March 1, 2016.

6. Unless otherwise directed by the Board, Newfoundland Power shall provide, in conjunction with the 2016 Capital Budget Application, a status report on the 2015 capital budget expenditures showing for each project:
   
   (i) the approved budget for 2015;
   (ii) the expenditures prior to 2015;
   (iii) the 2015 expenditures to the date of the application;
   (iv) the remaining projected expenditures for 2015;
   (v) the variance between the projected total expenditures and the approved budget; and
   (vi) an explanation of the variance.

7. Newfoundland Power shall pay all costs and expenses of the Board incurred in connection with the Application.
DATED at St. John’s, Newfoundland and Labrador this 9th day of October, 2014.

Andy Wells  
Chair & Chief Executive Officer

Darlene Whalen, P.Eng.  
Vice-Chair

Dwanda Newman, LL.B.  
Commissioner

James Oxford  
Commissioner

Cheryl Flundor  
Board Secretary
Newfoundland Power Inc.
2015 Capital Budget
Single-Year Projects Over $50,000
(000s)

<table>
<thead>
<tr>
<th>Project Description</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Generation - Hydro</strong></td>
<td></td>
</tr>
<tr>
<td>Facility Rehabilitation</td>
<td>$1,586</td>
</tr>
<tr>
<td>Public Safety Around Dams</td>
<td>429</td>
</tr>
<tr>
<td>Tors Cove Plant Refurbishment</td>
<td>1,777</td>
</tr>
<tr>
<td>Seal Cove Plant Refurbishment</td>
<td>156</td>
</tr>
<tr>
<td><strong>Total Generation - Hydro</strong></td>
<td>$3,948</td>
</tr>
<tr>
<td><strong>Generation - Thermal</strong></td>
<td></td>
</tr>
<tr>
<td>Facility Rehabilitation Thermal</td>
<td>$216</td>
</tr>
<tr>
<td><strong>Total Generation - Thermal</strong></td>
<td>$216</td>
</tr>
<tr>
<td><strong>Substations</strong></td>
<td></td>
</tr>
<tr>
<td>Substations Refurbishment and Modernization</td>
<td>$9,961</td>
</tr>
<tr>
<td>Replacements Due to In-Service Failures</td>
<td>3,110</td>
</tr>
<tr>
<td>Additions Due to Load Growth</td>
<td>8,935</td>
</tr>
<tr>
<td>Substation Feeder Termination</td>
<td>472</td>
</tr>
<tr>
<td><strong>Total Substations</strong></td>
<td>$22,478</td>
</tr>
<tr>
<td><strong>Transmission</strong></td>
<td></td>
</tr>
<tr>
<td>Transmission Line Rebuild</td>
<td>$3,221</td>
</tr>
<tr>
<td><strong>Total Transmission</strong></td>
<td>$3,221</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td></td>
</tr>
<tr>
<td>Extensions</td>
<td>$12,314</td>
</tr>
<tr>
<td>Meters</td>
<td>3,146</td>
</tr>
<tr>
<td>Services</td>
<td>4,101</td>
</tr>
<tr>
<td>Street Lighting</td>
<td>2,469</td>
</tr>
<tr>
<td>Transformers</td>
<td>6,778</td>
</tr>
<tr>
<td>Reconstruction</td>
<td>3,964</td>
</tr>
<tr>
<td>Rebuild Distribution Lines</td>
<td>3,302</td>
</tr>
<tr>
<td>Relocate/Replace Distribution Lines for Third Parties</td>
<td>2,504</td>
</tr>
<tr>
<td>Trunk Feeders</td>
<td>991</td>
</tr>
<tr>
<td>Feeder Additions for Growth</td>
<td>1,684</td>
</tr>
<tr>
<td>Distribution Reliability Initiative</td>
<td>863</td>
</tr>
</tbody>
</table>
Distribution Feeder Automation  160  
Allowance for Funds Used During Construction  197  
**Total Distribution**  $42,473  

**General Property**  
- Tools and Equipment  $467  
- Additions to Real Property  385  
- Standby and Emergency Power – Carbonear Office  304  
**Total General Property**  $1,156  

**Transportation**  
- Purchase Vehicles and Aerial Devices  $2,917  
**Total Transportation**  $2,917  

**Telecommunications**  
- Replace/Upgrade Communications Equipment  $123  
**Total Telecommunications**  $123  

**Information Systems**  
- Application Enhancements  $1,325  
- System Upgrades  930  
- Personal Computer Infrastructure  487  
- Shared Server Infrastructure  970  
- Network Infrastructure  328  
- Geographic Information System Improvements  433  
**Total Information Systems**  $4,473  

**Unforeseen Allowance**  
- Allowance for Unforeseen Items  $750  
**Total Unforeseen Allowance**  $750  

**General Expenses Capitalized**  
- General Expenses Capitalized  $4,100  
**Total General Expenses Capitalized**  $4,100  

**Total Single-Year Projects over $50,000**  $85,855
Newfoundland Power Inc.
2015 Capital Budget
Multi-Year Projects Over $50,000

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Expenditure (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pierre’s Brook Plant Penstock and Surge Tank</td>
<td>2015</td>
</tr>
<tr>
<td>Transmission Line Rebuild</td>
<td>$750</td>
</tr>
<tr>
<td>Renovations to Company Buildings</td>
<td>2,510</td>
</tr>
<tr>
<td>SCADA System Replacement</td>
<td>2,068</td>
</tr>
<tr>
<td>Microsoft Enterprise Agreement</td>
<td>2,833</td>
</tr>
<tr>
<td><strong>Total Multi-Year Projects Commencing 2015</strong></td>
<td><strong>$8,356</strong></td>
</tr>
</tbody>
</table>
Newfoundland Power Inc.
2015 Capital Budget
(000s)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects over $50,000 to be completed in 2015</td>
<td>$85,855</td>
</tr>
<tr>
<td>Multi-Year Projects over $50,000 commencing in 2015</td>
<td>8,356</td>
</tr>
<tr>
<td>Approved 2015 Capital Budget</td>
<td>$94,211</td>
</tr>
</tbody>
</table>