



IRON ORE COMPANY OF CANADA

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By Fax

November 26, 2001

Public Utilities Board of Newfoundland & Labrador
Prince Charles Drive,
120 Torbay Road, 2nd Floor
P.O. Box 21040
St. John's, NF. & Lab.
A1A 5B2

Attention: Ms. G. Cheryl Blundon

Dear Ms. Blundon;

I am writing on behalf of the Iron Ore Company of Canada (IOC) in Labrador City regarding the residential rate increases which Newfoundland Hydro has proposed to the Public Utilities Board. In particular, I am writing to express our strenuous objections to both the purpose and magnitude of the proposed increases for residential customers in Labrador City. We are objecting to these proposals, based on information that we have gathered from Public Forums and special interest group meetings. Newfoundland Hydro has not, to our knowledge, directly advised our Company of its intentions with respect to these matters.

According to our information the electrical energy rate increases outlined above are not predicated on operating cost shortfalls but rather Newfoundland Hydro has accumulated a surplus of approximately \$3M during the 1989-2001 period. It is also our understanding that Newfoundland Hydro is not expected to receive any incremental revenue as a result of the Labrador City rate increase, but rather that the costs will be shared differently across Labrador than has been the case for many, many years. The rate changes proposed by Hydro will simply result in "more equitable distribution of Labrador Interconnect System Costs", as described by Hydro.

The historical differential amongst rates across Labrador resulted, we would submit, for reasons, which are every bit as logical today as they have been since IOC began its operations in Western Labrador in the early 1960's. Principal amongst these is the fact that the Iron Ore Company of Canada constructed and maintained the entire residential distribution system in Labrador City at no cost to Newfoundland Hydro until 1992. This residential system was subsequently given to Newfoundland Hydro, along with some considerable upgrade funding.

Proposed Residential Rate Increases

Schedule "A" of the December, 1991 Agreement to transfer the Labrador City residential systems to Newfoundland Hydro lists out several hundred buildings, switches, lines, safety devices, poles, substations, transformers and ancillary equipment all of which were in good working order. This six-page list of electrical equipment which IOC had purchased, installed and maintained by IOC at the cost of many millions of dollars, plus cash payments of \$2.5M were passed over to Newfoundland Hydro at about that time. The cash payments were estimated to be 50% of the costs to upgrade the Labrador City system to top public utility standards.

Secondly, the high voltage distribution of power from Churchill Falls to Labrador West is in very large measure for the purposes to supply huge industrial demands for electrical energy at both Wabush Mines and our own IOC operations. This power is supplied under the terms of very long-term contracts, which we argue in effect transmits the residential power at negligible cost.

IOC committed to reimburse its employees for residential hydro price increases following the 1992 transfer of the Labrador City System to Newfoundland Hydro. The net effect of the proposed increase will therefore be to pass the majority of the costs directly on to our Company. In other words, having borne the costs of installing, maintaining and upgrading the Labrador City residential system and the lion's share of the costs of transmitting from Churchill Falls, Newfoundland Hydro is now asking IOC to bear the costs of more equitable Labrador Interconnect Systems Costs. This proposition, we submit, is entirely illogical and flies in the face of any kind of a rational business case.

Prices for natural resources commodities have declined in real terms for over fifty years and Iron ore is no exception to this trend. As a result, IOC has had no choice but to invest in new technologies to improve productivity and reduce costs. We have also had to trim our employment levels. In order to support both our employees and the Community of Labrador City, IOC has reduced its workforce through early retirements. This approach, plus numerous "stay in Labrador" programs has reversed a long time trend of out migration from our Town to the extent that over 75% of new retirees plan to reside in Labrador City. This new population of fixed income residents not only stabilizes our community but will, should it continue, actually grow our population as IOC renews its core workforce during the 2004-2010 period. This approach is consistent with Provincial philosophies and policies and must, in our view, be taken into account in structuring future hydro rates in Labrador.

There are a number of other public interest reasons why the approach and timing of the proposal to change Labrador Interconnect rates should not proceed. We understand that these have been well presented by a number of stakeholder groups and we will in the interests of brevity, not repeat them again herein.

Proposed Residential Rate Increases

We cannot believe that the current Newfoundland Hydro proposal took the previously mentioned factors into consideration and would, therefore, urge both Newfoundland Hydro and the Public Utilities Board to do so now. To our knowledge, IOC does not have access to individual Newfoundland Hydro cost components. We are, therefore, unable to access the appropriateness of the rate differentials across Labrador. In the absence of this data we can only assume that the logic which our predecessors applied to develop the original differentials was fundamentally sound. Given that very few, if any, of the original conditions have changed we urge you to seriously reconsider the current proposal. We would be more than pleased to meet and discuss this matter further should you wish.

Yours truly,



Dave Porter
Vice President Human Resources

Nov 27/2001

/NH

XC: T. Bowles (IOC)
Newfoundland Hydro, Mr. William Wells
Premier Roger Grimes
Minister of Mines and Energy - Lloyd Matthews