

JP #1
Nov. 26, 2003

Presentation to Public Utilities Board on behalf of Town of Wabush

On behalf of the Town of Wabush and the residents of Labrador West, I would like to extend a sincere welcome to the Public Utilities Board, Council and Staff and also to representatives of other interested parties including Newfoundland and Labrador Hydro, Consumer Advocate, and Newfoundland Power. The Town acknowledges with thanks the presence and support of our MHA, Randy Collins. The Town is especially appreciative in the attendance and support of Wabush Mines, the Iron Ore Company of Canada, and the United Steelworkers of America.

Complaint of Rate Discrimination

The Town of Wabush has initiated a complaint to the Public Utilities Board that the proposed policy of equalizing rates between Labrador West and Happy Valley – Goose Bay is unfair to the electrical consumers in Labrador West and would amount to charging discriminatory rates to consumers in Labrador West.

Background Labrador West and Labrador East – Separate Systems

The electrical distribution system that services Wabush electrical consumers was built by Wabush Mines at its cost. The system was operated well by Wabush Mines until approximately 1986. Wabush Mines gave the system to Newfoundland and Labrador Hydro for the nominal sum of one dollar (\$1.00). In addition, Wabush Mines contributed

approximately Three Million Dollars (\$3,000,000.00) to upgrade the system. Thus, Newfoundland and Labrador Hydro has been given a modern, state of the art, completely upgraded electrical system at no cost to Newfoundland and Labrador Hydro.

The Wabush system had no historical connection to the system developed by Newfoundland and Labrador Hydro to serve electrical consumers in the Happy Valley – Goose Bay area. The systems in Labrador East and Labrador West were completely separate and distinct.

Nor did the Labrador East electrical system receive capital infusions to upgrade as occurred in both Labrador City and Wabush.

Transmission

The Wabush system as well as the IOC system serving Labrador City received their electrical energy at the Wabush substation. This energy is now wheeled to Labrador West by Twinco over its 230 KV transmission line at no cost to Newfoundland and Labrador Hydro.

The Labrador East electrical system serving Happy Valley – Goose Bay and surrounding area receives its power via a 138 KV transmission line from Churchill Falls. This 138 KV line is dedicated solely to the Labrador East area. Its capital and maintenance costs are incurred by Hydro solely to serve customers in Labrador East.

Generation

The only common feature between the system in Labrador East and that in Labrador West is that each receives power that is generated by CFLCO at Churchill Falls. However, generation costs are higher in Labrador East than in Labrador West because Labrador East has the cost of 38 megawatts of stand-by generation capacity consisting of gas turbine and diesel generators. Stand-by capacity relates to Labrador East alone.

It offends common sense and reality to refer to the systems in Labrador East and Labrador West as a single Labrador interconnected system.

The reality is that electrical energy in Labrador West ought to be cheaper than power in Labrador East because of the modern upgraded system in Labrador West, low acquisition costs for the systems and no transmission costs.

Any decision to treat the Labrador West system and the Labrador East system as a single interconnected system is a completely fictitious exercise. The result of a policy imposing uniform rates throughout the so-called interconnected system is that consumers in Labrador West would be discriminated against by being required to subsidize those in Labrador East. The result amounts to undue rate discrimination against consumers in Labrador West.

Role of Wabush Mines

Wabush Mines may be facing the most difficult market conditions that it has ever experienced. Prices and markets are fiercely competitive while at the same time the Canadian currency has appreciated some twenty percent in the past year. In this market environment, Wabush Mines is struggling to survive.

If Wabush Mines does not exist then the Town of Wabush has no reason to exist.

Increases in electricity rates add to the cost of doing business in Labrador West for Wabush Mines as well as for the Iron Ore Company of Canada. In effect, such rate increases require these companies to pay again for costs that they have already paid for.

We in Wabush fear that such a discriminatory policy may underline the commitment of Wabush Mines to continue business in Labrador.

Collection of the Rural Deficit

Wabush has always paid its share of social costs in the Province. Residents in Wabush do not object in principle to the subsidization of rural electricity rates. Such a subsidy is in effect a social tax. As a tax it ought to be collected through the Legislature rather than imposed on certain electrical consumers including Newfoundland Power customers and some consumers in Labrador. By utilizing the authority conferred by Section 92A of the Canadian Constitution, the Province could impose a tax on all electrical production of

the Province including that exported. Such a tax would more appropriately spread the burden of rural rate subsidy and reduce the impact on Labrador domestic consumers as well as Newfoundland Power customers on the Island. Indeed, a modest tax in range of one (1) mil per kilowatt-hour calculated on all electrical production in the Province whether exported or not would realize sufficient monies to fund the rural deficit. This is a better and fairer approach than placing the entire burden of rural electricity rates on Newfoundland Power customers and some Labrador customers. This board's duty and responsibility is to recommend such a tax to the Province.

Consumers in Labrador West pay electricity rates based on the costs to service Labrador West together with contribution to the rural deficient. Labrador West should not be required to subsidize Happy Valley – Goose Bay consumers. Hydro should not be placing Labrador West citizens in a position where Labrador West consumers are forced into a direct conflict with those in Happy Valley – Goose Bay.

I thank you for the opportunity to make this submission and look forward to a decision that does not allow discriminatory rates to be charged to consumers in Labrador West.

Respectfully submitted on behalf of the Town of Wabush

Jim Farrell, Mayor