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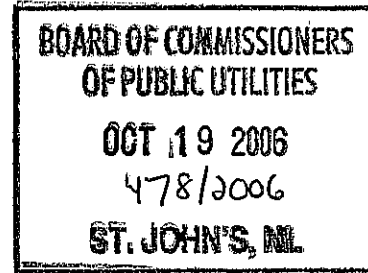
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October 17, 2006

Via Electronic Mail & Mail

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



Attention: Ms. G. Cheryl Blundon
Board Secretary

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro's 2007 Capital Budget Application

We are counsel to the Island Industrial Customers of Newfoundland and Labrador Hydro, and we write in reply to the Submission of Hydro filed with the Board on October 13, 2006.

Hydro's submissions on the Capital Project Screening Process offer no insight as to why it should be accepted that every capital project proposed by Hydro is equally necessary to the stated goal of achieving an acceptable level of least cost reliable service. Hydro is prepared to recognize, as a limit on its capital expenditures, the guideline that the total of Hydro's capital projects in a year would not normally exceed cash flow from operations. That limit, as amorphous as it may be, at least confirms that Hydro is capable of prioritizing capital projects – those that would increase spending beyond the guideline must presumably be of lesser priority and are deferred. As Hydro has acknowledged its ability to prioritize, it must acknowledge its ability to eliminate projects which make the total capital budget excessive. The goal of regulation is to attempt to replicate, as far as possible, the discipline imposed on the private sector by the economic reality that money is not always available to proceed with every desired project. Hydro needs to discipline itself to economize, both in capital and operational spending.

Hydro has misconstrued the Island Industrial Customers' position on environmental matters. Clearly, we have not advocated that Hydro attempt to avoid compliance with environmental standards. We simply maintain that Hydro ought to proceed with only those projects which are demonstrably required for environmental standards compliance, by the least cost means as with any other project, in order to comply with the *Electrical Power Control Act*. Environmental measures undertaken essentially for public relations purposes should be funded from Hydro's equity and not form part of either its capital or operating regulated budgets.

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The Island Industrial Customers have not requested a hearing in respect of this application, for the reasons noted in their Submission of October 6, 2006.

We look forward to the Board's disposition of this matter.

Yours truly,

Stewart McKelvey

for: Paul L. Coxworthy

PLC/kmcd

cc. Mr. Geoffrey P. Young
Newfoundland & Labrador Hydro

Mr. Peter Alteen
Newfoundland Power Inc.

Mr. Thomas Johnson
Consumer Advocate
O'Dea, Earle