

September 14, 2018

The 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 Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: An Application by Newfoundland and Labrador Hydro ("Hydro") for Approval of Capital Expenditures to Upgrade the Happy Valley-Goose Bay Distribution System – Hydro's Reply

The following is Hydro's reply to the parties' submissions with regard to the above-noted Application.

1.0 Application Background

On August 3, 2018, Hydro filed an Application for approval of capital expenditures to upgrade the Happy Valley-Goose Bay Distribution System. On August 24, 2018, Hydro received requests for information ("RFIs") from the Iron Ore Company of Canada ("IOC") and from the Labrador Interconnected Group ("LAB"). On August 27, 2018, Hydro wrote the Board indicating that, in its opinion, with the exception of LAB-NLH-003, each of LAB-NLH-001 to LAB-NLH-009 specifically request information regarding cryptocurrency/blockchain customers which is not relevant or useful in this proceeding. On August 31, 2018, the Board wrote to Hydro directing it to provide specific answers to each of the LAB RFIs. Also on August 31, 2018, Hydro filed its responses to IOC's RFIs and LAB-NLH-003 and indicated that, as per the Board's direction, Hydro will file a response to each of the remaining RFIs on or before Thursday, September 6, 2018. Hydro did so on September 5, 2018. Hydro received comments on the Application from IOC on September 6, 2018 and from LAB on September 11, 2018.

2.0 Hydro's Response

IOC Comments

In its submission, IOC noted that it did not consider Hydro's responses to IOC-NLH-001 and IOC-NLH-002 responsive. IOC asserts that in IOC-NLH-001, it sought the peak load for the system. IOC-NLH-001 reads as follows:

"Please indicate the system maximum distribution capacity".

Hydro responded to IOC-NLH-001 with information pertaining to the system maximum distribution capacity as requested. Hydro states that peak load is not related to distribution capacity. In any event, the peak load on the system in Labrador East has been provided on the record numerous times and, in particular, for the Muskrat Falls to Happy Valley Interconnection Project in the “Attachment 1 – Responses to PUB Questions” submitted by Hydro on March 6, 2018. IOC is an intervenor in that proceeding.

IOC-NLH-002 asked whether the table referred to in evidence indicates the priority load in each area. The first sentence of Hydro’s response reads:

“Table 2 of the report outlines the expected peak load for each priority area”.

Hydro notes that IOC ultimately did not object to the capital expenditures proposed in the Application.

LAB Comments

LIG in its submission states:

“It should be borne in mind that the current NLH proposal has arisen in response to a capacity problem in Labrador East which can be attributed in large part to Hydro’s acceptance of a number of new cryptocurrency customers. Hydro’s current application is driven by the need to address this capacity problem.

...

That said, the LIG considers that substantive responses to the questions posed in the above-mentioned RFIs would help the Board understand the extent to which the investment for which approval is sought here would be unnecessary, should a comprehensive solution to the cryptocurrency issue eventually be put in place.”

The Application is in no way attributable to Hydro’s acceptance of new cryptocurrency customers, which it is legislatively required to serve. The ongoing analysis of the Labrador East system identified that the system can be better configured for emergency management and this project supports that purpose. The assertion that the project would be unnecessary if a comprehensive solution to the cryptocurrency issue was in place is not correct. Hydro would be proposing this project in the absence of any cryptocurrency customers and, in fact, even if the Muskrat Falls to Happy Valley Interconnection project was approved and constructed. The emergency management capability that the project provides is prudent and aligned with Hydro’s obligation to provide least-cost, reliable service.

LAB in its submission goes on to state:

“Hydro should also be considering options for curtailing cryptocurrency loads, as an alternative to, and in conjunction with the proposal to prioritize certain loads.”

Again, the curtailment of cryptocurrency loads is not relevant to this Application. Hydro stated in its response to the LAB's RFIs that the determination of customers engaged in cryptocurrency mining is not relevant to this proposed application, as the proposed application aims to provide efficient management of priority areas in the event of a power emergency.

Hydro notes that in investigating the possibility of voluntary customer curtailment in Labrador East for this coming winter, an interruptible agreement was reached with one customer. An application for approval of that interruptible agreement is now before the Board for consideration.

Finally, Hydro notes that while LAB agreed with IOC's statement that the capital investments sought in the Application are not large, it reserved the right to challenge the prudence of the proposed investments, on the basis they were only made necessary by new cryptocurrency customers. Hydro submits that it has provided more than sufficient evidence to refute that statement and show that the capital investments sought by the Application are not only prudent but required regardless of new or existing cryptocurrency customers. In addition, LAB's statement is procedurally incorrect in that its submission was its opportunity to refute the prudence of the proposed investments and object to their expenditure prior to Hydro incurring them if approved by the Board, which objection it did not specifically provide.

Hydro respectfully requests that the Board approve Hydro's Application as submitted.

Should you have any questions, please contact the undersigned.

Yours truly,

Newfoundland & Labrador Hydro



Michael S. Ladha
Legal Counsel & Assistant Corporate Secretary
MSL/kd

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey
ecc: Larry Bartlett – Teck Resources Ltd.
Denis J. Fleming – Cox & Palmer
Van Alexopoulos – Iron Ore Company
Senwung Luk – Labrador Interconnected Group

Dennis Browne, Q.C. – Browne, Fitzgerald, Morgan & Avis

Sheryl Nisenbaum – Praxair Canada
Dean Porter – Poole Althouse
Benoît Pepin – Rio Tinto