

August 5, 2014

The Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, Newfoundland & Labrador
A1A 5B2

Attention: Ms. Cheryl Blundon
Director Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Written Submission regarding Newfoundland Power's 2015 Capital Budget Application

Enclosed please find 12 copies of this letter which is Hydro's written submission with regard to the above-noted application.

Hydro's intervention in Newfoundland Power's 2015 Capital Budget Application is focused solely on the project "Pierre's Brook Hydro Plant Penstock Replacement and Surge Tank Refurbishment".

The evidence filed with the application in support of the Pierre's Brook Project appears to indicate the decision to proceed with the project was based upon energy savings relative to production from the Holyrood Thermal Generation Station ("HTGS").¹ Given the proposed project is to be completed in 2016 and production at HTGS is scheduled to be minimal beyond mid-2018, Hydro believed additional information on the project evaluation was required to demonstrate the project is least cost and, therefore, asked a series of requests for information.

Hydro believes that all generation projects need to be evaluated giving consideration to all reasonable alternatives. In 2018, the purchases from Hydro will reflect the power purchase agreement, dated November 29, 2013, between Hydro and Muskrat Falls Corporation (the "Muskrat Falls PPA").

Newfoundland Power did not give consideration to the Muskrat Falls PPA in its evaluation of the Pierre's Brook Project, as the agreement was not yet public. Newfoundland Power states the Muskrat Falls PPA should not have material influence on decision-making associated with the proposed refurbishment of the Pierre's Brook Plant.²

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. Newfoundland Power estimates that the levelized cost of energy for the Pierre's Brook Project is 4.87¢ per kWh over the next 50 years. This cost is less than the most current available estimate of marginal energy cost for the Island Interconnected System following the Muskrat Falls

¹ See page 10 of Report "Pierre's Brook Hydro Plant Penstock Replacement and Surge Tank Refurbishment".

² See response to NLH-NP-013.

Project.³ However, there is uncertainty with respect to the marginal costs on the Island Interconnected System beyond 2017 for comparison to the 4.87¢ per kWh.

Hydro believes “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.”⁴

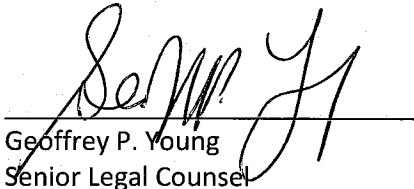
Newfoundland Power states it “has not performed the necessary analysis to determine the maximum levelized cost of energy beyond which the Company would not consider it prudent to proceed with the Pierre’s Brook hydroelectric plant refurbishment”.⁵

Hydro observes 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. Therefore, 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 PPA and marginal cost.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Geoffrey P. Young
Senior Legal Counsel

GPY/cp

cc: Gerard Hayes – Newfoundland Power

Thomas Johnson – Consumer Advocate

³ See response to NLH-NP-007.

⁴ See response to CA-NLH-033 filed in Hydro’s 2013 General Rate Application.

⁵ See response to NLH-NP-010.