

November 21, 2016

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 pursuant to Subsection 41 (3) of the Act for approval of a capital expenditure to supplement the Allowance for Unforeseen Items for the construction and purchase of certain improvements and additions to its property.

Following is Newfoundland and Labrador Hydro's (Hydro) submission with regard to the above noted application.

1.0 Application Background

On October 28, 2016, Hydro filed an Application with the Board of Commissioners of Public Utilities (the Board) seeking approval of the restoration of the Allowance for Unforeseen Items amount by \$1,000,000. As a result of two unforeseen capital projects, the Bay d'Espoir Penstock 1 Refurbishment and the Bay d'Espoir Access Roads Refurbishment, Hydro's existing Allowance for Unforeseen Items account has been depleted.

2.0 Intervenor Submissions

Newfoundland Power Inc. (Newfoundland Power), in its letter dated November 14, 2016, stated that it "*agrees that an appropriate balance should be maintained in the Allowance for Unforeseen Item*" and "*therefore submits that the Board should approve the Application.*" Newfoundland Power has also requested that it be given the opportunity to consider and comment on the project expenditures related to the above noted project expenditures once Hydro has submitted the detailed reports required by the Capital Budget Guidelines.¹

The Island Industrial Customer Group (IIC), representing Corner Brook Pulp and Paper Limited and NARL Refining Limited Partnership, in its letter of November 14, 2016, have not objected to Hydro's application. Rather, the IICs have questioned whether the capital costs of the Bay d'Espoir Access Roads Refurbishment should eventually be included in Hydro's rate base and

¹ Letter from Newfoundland Power Inc. dated November 14, 2016.

have asked Hydro to advise of its legal interest in the roadways being repaired. The ICCs have also asked that Hydro advise as to what recourse it may have for the recovery of some or all of the costs associated with the substandard workmanship relating to the Bay d'Espoir Penstock 1 Refurbishment.²

3.0 Hydro's Response

Hydro submits that Newfoundland Power specifically supports Hydro's application and the IICs do not oppose it.

The Capital Budget Guidelines issued by the Board in October 2007 (the Guidelines) permit a utility to apply for approval of an additional amount in the Allowance for Unforeseen Items account provided the utility shows that usage of the account has been consistent with the Guidelines. Hydro submits that both the Bay d'Espoir Penstock 1 Refurbishment and the Bay d'Espoir Access Roads Refurbishment required Hydro to act expeditiously to deal with the events and that Hydro could not wait for specific approval from the Board. Had Hydro waited to obtain approval from the Board through the ordinary supplemental capital budget process which would have delayed Hydro in undertaking the required work, Hydro submits that its ability to run the electrical system and supply reliable service to its customers would have been severely impeded.

The work to reinstate the Bay d'Espoir access roads was necessary to ensure reliable service to Hydro's customers and permit safe operation of its reservoirs. The work to reinstate the access roads required culverts and large quantities of fill at a time when there were a number of competing requests from across the island for the same items as a result of significant damage to other roads throughout the province caused by the same rain event that had damaged Hydro's roads. If Hydro had not acted as expeditiously as possible, its ability to obtain the necessary culverts and fill in a timely fashion would have been impeded and the work would have been delayed. Further, if Hydro had delayed the work, it was possible the work would have been impeded by colder temperatures. These access roads are regularly used by Hydro employees to travel to Hydro's remote generating stations, structures and dams to perform maintenance and operations activities. Bay d'Espoir and Upper Salmon are two critical hydraulic generating stations on the island of Newfoundland and thus needed to be accessible to ensure reliable service for Island Interconnected customers. Had Hydro waited to obtain approval from the Board through the ordinary supplemental capital budget process and been delayed in undertaking the required work, Hydro submits that its ability to run the electrical system and supply reliable service to its customers would have been severely impeded.

The work to repair the unacceptable welds on Penstock 1 was also necessary to ensure reliable service to Hydro's customers. With penstock 1 out of service, Bay d'Espoir Units 1 and 2 are not available for generation. Due to the criticality of Bay d'Espoir to the Island Interconnected

² Letter from the Island Industrial Customer Group dated November 14, 2016.

System, Hydro was required to start the work to repair the unacceptable welds as soon as possible to ensure the penstock was repaired and Bay d'Espoir Units 1 and 2 were available for generation in time for the winter operating season to enable Hydro to provide reliable service to customers. If Hydro had waited to obtain approval from the Board through the ordinary supplemental capital budget process and been delayed in undertaking the required work, Hydro submits Units 1 and 2 would not be back in service in time for the winter operating system, a circumstance that Hydro deemed to be unacceptable.

With respect to Newfoundland Power's request to comment on Hydro's final reports in relation to the Bay d'Espoir Penstock 1 Refurbishment and the Bay d'Espoir Access Roads Refurbishment, Hydro submits that the appropriate time to comment on the project expenditures will be when Hydro applies to the Board and seeks to include those costs in its rate base. At that time, the Board will fix and determine Hydro's rate base based upon the indicia set out in the *Public Utilities Act*.

With respect to the IIC's comment on the Bay d'Espoir Access Roads Refurbishment, details related to the locations of damage caused by Hurricane Matthew will be addressed in the Allowance for Unforeseen Items report that will be issued 30 days after the work has been completed. This will include a discussion regarding Hydro's legal interest in the roadways. With respect to the IIC's question as to whether any of the costs should be included in Hydro's rate base, Hydro submits that Hydro's rate base for the year in which the work is completed and the assets and property are used and useful will be determined in a further application to the Board. As noted above, at that time, the Board will fix and determine Hydro's rate base based upon the indicia set out in the *Public Utilities Act*.

With respect to the IIC's commentary regarding substandard workmanship during the initial manufacture of the penstock, Hydro submits that this conclusion was preliminary and based on the initial evaluation of the previous failure in May. Hydro will file a complete root cause analysis with the Board once the root cause of the unacceptable welds has been determined.

In summary, Hydro submits its use of the Allowance for Unforeseen Items account has been consistent with the policy as set out in the Capital Budget Guidelines and that it is appropriate to maintain a balance in the Allowance for Unforeseen Items account in the amount of \$1,00,000 to enable Hydro to address any unforeseen events that may arise in the remainder of the year. Hydro respectfully requests that the Board approve Hydro's application, as submitted.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO


Tracey L. Pennell
Senior Counsel, Regulatory

TLP/bs

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Sheryl Nisenbaum – Praxair Canada Inc.

Dennis Browne, QC – Consumer Advocate
Thomas J. O'Reilly, Q.C. – Cox & Palmer
Larry Bartlett – Teck Resources Limited