



File No: \_\_\_\_\_

**NEWFOUNDLAND AND LABRADOR HYDRO**

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**By e-mail and regular mail**

October 4, 2006

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

**Attention: Ms. G. Cheryl Blundon,  
Director of Corporate Services & Board Secretary**

Dear Ms. Blundon:

Re: Application for the Approval of the Deferral of Expenses associated  
with the Repair of the Unit 2 Boiler at the Holyrood Thermal  
Generating Station as a Major Extraordinary Repair

This is further to a submission to the Board on this matter dated September 26, 2006 from Mr. Joseph Hutchings, Q.C. acting on behalf of the Industrial Customers. We believe it to be appropriate to respond and comment on certain of the points raised in that correspondence.

Mr. Hutchings has suggested to the Board that Hydro's application to have the boiler tube repairs treated in accordance with the accounting treatment set out in the 1991 Peat Marwick Report report, "Accounting for Major Plant Replacements and Repairs" is inconsistent with the conduct of an "ordinary commercial corporation" because such an accounting treatment is not aligned with generally accepted accounting principles (GAAP). Hydro would point out that as a regulated public utility, it is subject to specialized rules of accounting that, in appropriate circumstances, provide for different accounting rules than would apply under GAAP. The policy pertaining to extraordinary expenses is one such circumstance.

As was pointed out in the September 5, 2006 Grant Thornton report filed in this matter, Hydro's treatment of these expenses is in accordance with the above-noted Board approved policy which the Board has followed in previous occasions concerning both Hydro and Newfoundland Power. This policy was made in recognition of the fact that operating a regulated electrical utility necessarily requires, from time to time, very expensive yet unanticipated repairs to plant that would have significant earnings or rates impacts. To be properly understood, this


policy and other accounting mechanisms should be viewed in their regulatory context.

Special accounting rules set by public utility regulators have stood the test of time and regulatory practice. Provided that an applicant can demonstrate that its circumstance fit the tests set out by the Board that govern the application of those regulatory methodologies or accounting treatments, GAAP can quite properly be considered to be inapplicable. Put another way, the accepted accounting principles for public utilities include those special rules and policies that are set by the regulators that govern them.

We would wish to address the point of the timing for this requested Order. We note that the Industrial Customers is the only party, aside from Hydro, that has made a representation to the Board in this matter and that the IC have not sought that a hearing be held. Hydro agrees that a hearing is unnecessary for the Board to determine this matter. As no party has requested that a hearing be held on this issue, notwithstanding that an order flowing from this application would not directly impact rates until rates are set following Hydro's upcoming GRA, Hydro requests that an order be made following these written submissions so that this issue may be decided in advance of the GRA proceedings. We would add that it would be problematic for Hydro's financial reporting if the accounting treatment of this expense were not determined prior to year-end.

Yours truly,

**NEWFOUNDLAND AND  
LABRADOR HYDRO**

  
 Geoffrey P. Young  
 Legal Counsel

Encl.

c.c. Mr. Peter Alteen - Newfoundland Power  
 Mr. Thomas Johnson - Consumer Advocate  
 Mr. Joseph S. Hutchings, Q.C., Poole Althouse &  
 Mr. Paul Coxworthy, Stewart McKelvey, counsel for Industrial Customers