

September 2, 2011

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 of 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 two capital projects at the Holyrood Thermal Generating Station.

This is further to your letter of August 25, 2011 requesting comments on deferring the above-noted Application to the Phase II review of the 2012 Capital Budget Application.

Hydro's position on deferral of this Application has been articulated in the responses to the Requests for Information (RFIs) on this matter. In particular, RFI numbers CA-NLH-1, CA-NLH-2 and IC-NLH-1.

To summarize, Hydro believes it is prudent to proceed immediately with this Application, so that:

1. The Unit 1 Stack Breeching support structures, which is the most pressing issue, can be replaced, if approved, in 2011¹. The risk of not performing this work remains an issue in that a forced outage may occur.
2. Long lead times on steel related to the fuel tank refurbishment indicate early ordering is prudent to ensure the tank is in service for the 2012-2013 fall and winter seasons².
3. These projects were initially scheduled for 2011, and the resubmission was made to address concerns expressed by the Board in Order No. P.U. 38(2010). In excess of 60 RFIs have received responses from Hydro on this matter, in addition to the 16 RFI responses filed on these projects as part of Hydro's 2012 Capital Budget Application. Hydro would be pleased to provide a technical conference to address any further concerns of the parties, to ensure all required information is provided.
4. Hydro considers that deferral of these projects into 2012 increases reliability risks to an unacceptable level.

Based on the response to IC-NLH-1, the overall costs of these projects have changed slightly. Please find attached the original and eight copies of an amended Application on this matter with changes shaded for ease of reference.

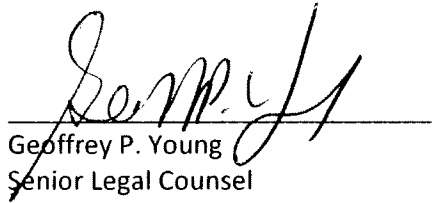
¹ Please see response to IC-NLH-1.

² Please see response to CA-NLH-1.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Geoffrey P. Young
Senior Legal Counsel

GPY/jc

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales

Thomas Johnson – Consumer Advocate
Dean Porter – Poole Althouse

IN THE MATTER OF the *Electrical Power Control Act*, RSNL 1994, Chapter E-5.1 (the “EPCA”) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the Act) as amended, and their subordinate regulations;

AND IN THE MATTER OF an Application by Newfoundland and Labrador Hydro pursuant to Subsection 41(3) of the Act, for the approval to upgrade Unit 1 stack breeching and to upgrade the fuel oil storage facility at the Holyrood Thermal Generating Station.

TO: The Board of Commissioners of Public Utilities (the Board)

THE APPLICATION OF NEWFOUNDLAND AND LABRADOR HYDRO (Hydro) STATES THAT:

1. Hydro is a corporation continued and existing under the *Hydro Corporation Act, 2007*, is a public utility within the meaning of the Act and is subject to the provisions of the *Electrical Power Control Act, 1994*.
2. Hydro owns and maintains the Holyrood Thermal Generating Station (Holyrood) which is an essential part of the Island Interconnected System with three units providing a total capacity of 490 MW representing approximately one-third of Hydro’s Island Interconnected System generating capacity.

Stack Breeching

3. One of the main components of each generation unit, the boiler, requires stack breeching to convey the boiler hot flue gas safely outside the plant.

4. The existing stack breeching for Unit 1 has erosion damage to its insulation, cracks in the internal insulating liner and concrete floor, corrosion to steel plates, and other damage and deterioration. Details and supporting documentation are found in the attached report entitled "Upgrade Unit 1 Stack Breeching".
5. Refurbishment of the stack breeching is required to ensure reliable operation of Unit 1, consistent with the anticipated future use of Holyrood as described in Attachment A.
6. The attached proposal document entitled "Upgrade Unit 1 Stack Breeching" describes the project in further detail and provides justification for the project.

Fuel Oil Storage Facility

7. The generating units at Holyrood are fuelled by No. 6 (Bunker C) oil, which is stored in four tanks, two installed in 1969 and two, including Tank 3, installed in 1977.
8. Two of the four tanks at Holyrood have been refurbished and are known to be in reliable condition. The last major inspection of Tank 3 occurred in 2003, when 195 repairs, or patches, were made, extending the life of the tank by five to six years, which have now passed. A complete internal inspection of Tank 3 will be

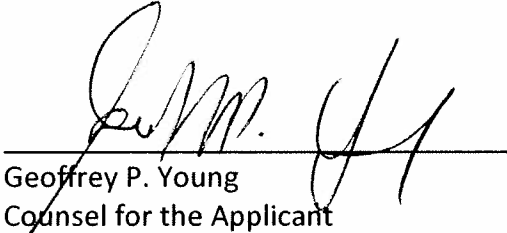
completed as part of the proposed project, and the exact scope of the required work modified at that time.

9. The criticality of the availability of all four fuel tanks at Holyrood is expected to steadily increase over the next six years, with fuel consumption forecast to increase from 1.5 million barrels in 2011 to 2.7 million in 2016, as load on the Island Interconnected System.
10. As the requirements for fuel consumption increase, fuel storage is required to ensure a secure supply of No. 6 fuel. When the plant is operating at full load, with all four tanks in service, fuel shipment is required every 11 to 14 days to sustain the full output level of the generating units at Holyrood. Loss any one of the (200,000 barrel capacity) tanks would require more frequent fuel shipments, which may be impeded by ice or weather conditions.
11. The inspection and consequent refurbishment of Tank 3 is critical to maintain that secure supply of No. 6 fuel.
12. The attached proposal document entitled "Refurbishment of the Fuel Oil Storage Facility" describes the project in further detail and provides justification for the project.

Application

13. Therefore, Hydro makes Application that the Board make an Order approving, pursuant to Section 41 (3) of the *Act*, the capital expenditure of **\$1,919,000** for upgrade Unit 1 stack breeching, and the capital expenditure of **\$2,754,400** for the refurbishment of Tank 3, both projects at Holyrood.

DATED AT St. John's in the Province of Newfoundland and Labrador this 24 day of September 2011.



Geoffrey P. Young
Counsel for the Applicant
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Facsimile: (709) 737-1782

IN THE MATTER OF the *Electrical Power Control Act*, RSNL 1994, Chapter E-5.1 (the *EPCA*) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the *Act*) and regulations thereunder;

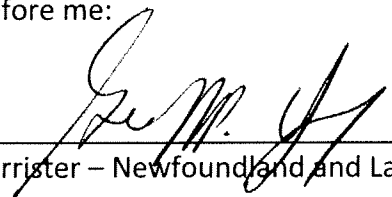
AND IN THE MATTER OF an Application by Newfoundland and Labrador Hydro for the approval, pursuant to Subsection 41(3) of the Act, for the approval to upgrade Unit 1 stack breeching and to upgrade the fuel oil storage facility at the Holyrood Thermal Generating Station.

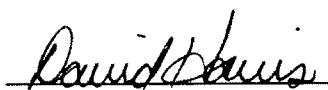
AFFIDAVIT

I, David Harris, Professional Engineer, of St. John's in the Province of Newfoundland and Labrador, make oath and say as follows:

1. I am Manager, Rates and Regulation, on behalf of Newfoundland and Labrador Hydro, the Applicant named in the attached Application.
2. I have read and understand the foregoing Application.
3. I have personal knowledge of the facts contained therein, except where otherwise indicated, and they are true to the best of my knowledge, information and belief.

SWORN at St. John's in the Province)
of Newfoundland and Labrador)
this 2nd day of September 2011)
before me:)


Barrister – Newfoundland and Labrador


David Harris, P. Eng.