



November 17, 2014

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon, Director of Corporate Services and Board Secretary

Ladies and Gentlemen:

Re: An Application by Newfoundland and Labrador Hydro (Hydro) for Approval of the Deferral and Recovery of Expenses Associated with the Increased Capacity-related Supply Costs on the Island Interconnected System in 2014

On October 8, 2014, Hydro filed an Application with the Board for approval of the deferral and recovery of expenses associated with increased capacity-related supply costs on the Island Interconnected System in 2014. More specifically, Hydro is proposing that capacity-related supply costs of \$9,650,000 incurred during the first quarter of 2014 be treated as an extraordinary expense and that this expense be deferred for recovery over a period of five years beginning in 2015. The capacity-related expenses relate to a short-term purchase arrangement with Corner Brook Pulp and Paper and fuel costs for Hydro and Newfoundland Power diesel and gas turbine generation (Application para. 7).

Hydro indicates that the Application is needed because these costs are not included in the 2007 test year forecast used to determine current rates, and have a material impact on its ability to earn a reasonable return in 2014 (Application para. 5). Hydro notes that it is forecasting a net loss in 2014 even if the Application is approved (Application para. 11). Hydro states that these expenses were incurred to minimize the impact of system capacity constraints on customers (Application para. 6), and that the costs were prudently incurred (Application para. 8).

The Consumer Advocate takes issue with Hydro's claim that the costs have been prudently incurred. In our opinion, this statement cannot be supported prior to issuance of the Board's report on its Investigation and Hearing into Supply Issues and Power Outages on the Island

Interconnected System. In an October 31, 2014 letter to the Parties, the Board indicates that Phase One of its investigation will consider, among other things, the causes of the December 2013 and 2014 supply issues and power outages, the response by Hydro and NP including emergency preparedness and rotating outages, asset management practices of the utilities, Hydro's load forecasting practices, adequacy of utility resources to operate and maintain the Island Interconnected System and governance and decision-making at Hydro. Each of these issues has a direct bearing on the prudence of the costs incurred by Hydro in this Application, and as referenced in NP-NLH-1, the Board has stated (Board Order No. P.U. 29(2014) relating to Hydro's 2014 Capital Budget Supplemental Application – Sunnyside Replacement Equipment):

"Whereas the Board is satisfied that the proposed 2014 and 2015 capital expenditures should be approved, but finds that, as the events and circumstances surrounding the Sunnyside T1 transformer failure are currently under review as part of the Board's ongoing Investigation and Hearing into the Supply Issues and Power Outages on the Island Interconnected System, no determination will be made at this time as to how the costs of the proposed work should be treated from a regulatory perspective; and..."

Therefore, the Consumer Advocate recommends that the Board deny this Application pending the outcome of its Investigation and Hearing into the Supply Issues and Power Outages on the Island Interconnected System.

Please contact the undersigned if you have any questions.

Yours very truly,

O'DEA, EARLE



THOMAS JOHNSON

TJ/cel

cc: Newfoundland Power
Attention: Mr. Gerard Hayes

Newfoundland and Labrador Hydro
Attention: Mr. Geoffrey Young

Island Industrial Customers
Attention: Paul Coxworthy

Vale Newfoundland & Labrador Limited
Attention: Tom O'Reilly, Q.C.

Praxair Canada Inc.
Attention: Ms. Sheryl Nisenbaum