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Ms. Cheryl Blundon  
Director of Corporate Services and Secretary to the Board  
Board of Commissioners of Public Utilities  
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**Supply Issues and Power Outages Review Island Interconnected System:  
Brief to the Board of Commissioners of Public Utilities  
Newfoundland and Labrador**

Dear Ms. Blundon:

Thank you for the opportunity to provide this written brief to the Board as it conducts its hearing into the power outages review. We ask that it be included in the public record of the hearing.

Our main interest in the review is the reliability of the post-Muskrat Falls system and we look forward to seeing the report of the Liberty Consulting Group on that issue. We doubt that they will conclude that Muskrat Falls is the panacea for the reliability issues we face today and over the next few years and we suspect that Holyrood, or a replacement for Holyrood, will be necessary to ensure reliable power to the Avalon Peninsula when Muskrat Falls is completed.

We are disappointed that the request we made to the Board to have an independent study done of the North Spur has been rejected, as we feel that the Bernander presentation raises serious concerns about the stability of the North Spur, which is surely a reliability issue. However we understand the restrictions the Board is under as a result of the order in council which exempts the project from a full regulatory review. While there was a limited reference to the Board on whether Muskrat Falls was the cheapest alternative it was not a substitute for the kind of full and unfettered review conducted by the Nova Scotia Board on the Maritime Link.

However, we would like to comment on the main findings of the consultants in the context of recent outages and the continuing failure of Hydro to meet its obligations to ensure a reliable supply of power. It is clear that no lessons have been learned and that the warning of Liberty of the possibility of continuing outages has come to fruition. We urge the Board to engage its consultants to review the recent outages.

With the recent outages, one of which caused considerable disruption to the educational system, this will mark the third year we have experienced outages.

Liberty noted that "Hydro did not complete recommend maintenance activities on the equipment that failed and that protective relay design issues and inefficient operator knowledge of the protective relay design issues and insufficient operator knowledge of the protective relay schemes existed."

In its interim report Liberty concluded that "Hydro's shortage of generation capacity was exacerbated by a failure to complete planned outage work needed to ensure the availability of its full range of generating facilities as the winter season began."

In addition "Liberty found that Hydro needs to plan its resources to meet more severe weather than it has assumed to date."

The comment by Liberty that "the number and nature of the failures that occurred within this compressed time frame is very unusual and raises questions about Hydro's operation and maintenance of equipment" is a damning criticism of Hydro. The two recent outages are continuing proof that Hydro is still not doing a good job of operating and maintaining its equipment. Liberty needs to be asked to investigate those recent outages. Internal investigations by Hydro are not good enough. The fact that the much delayed turbine generator failed to start when it was first needed is cause for concern.

The result of three successive years of outages based on the failure to properly maintain and operate generating equipment has created a total lack of confidence by the ratepayers in the ability of Hydro to be a reliable supplier of electricity. We suspect, based on our own experience, and anecdotal evidence, that the sales of standby generators have increased dramatically. We wonder how many Hydro employees have done the same. And we conclude that Newfoundland and Labrador Hydro, long the crown jewel of our Crown corporations, has been allowed to decline and it's well deserved former reputation as a reliable and well-run utility is in tatters.

This leads us to the governance issues which have been addressed by Liberty.

We are both former public officials with long and varied experience in running large and complex public organizations. Newfoundland and Labrador Hydro is a public organization but perhaps not recognized as such by the current Board and CEO. We have had some of our finest public administrators run Hydro, people such as Vic Young, Cyril Abery, Bill Wells and David Mercer, among others. There were few issues of reliability under their watch.

Problems arise from time to time in public organizations including the supply of electricity. There have been losses of power in the past arising mainly from the failure of transmission because of weather, but we have never experienced the kind of outages which occurred over the past three years.

When a problem happens once and is remedied so it doesn't happen again, that is the sign of competent management. When it happens over and over again the result in any other

organization is change at the top. Why that hasn't happened in the case of Hydro is difficult to understand.

Liberty makes recommendations with respect to governance and management.

First of all it recommends that "the range of skills and experience among the directors on Hydro's Board" be expanded. Liberty obviously feels that the present Board does not have those skills and experience. It seems to us that many of the present appointees owe the appointments to "who" they know rather than "what" they know. Political affiliation and who you know should not be the basis for appointments to such an important board.

Secondly, Liberty advises that "Hydro needs a single executive under which it can consolidate the principal functions associated with delivering utility service. In the current structure the Nalcor CEO has a broad range of other duties that limit his ability to manage Hydro on a day-to-day basis. This new, full-time Hydro executive needs to be in place soon; a leader with proven, top-level utility experience would be a first choice."

We understand that the present CEO allocates around 10% of his time to Hydro.

It is shocking that there has been no response by Government to those recommendations. And even more shocking is that the only response has been from the present CEO who has no business responding to matters which are policy matters for Government to decide.

We believe that the source of the problems with Hydro is the misguided creation of Nalcor. We should never be in the oil and gas industry. It is far too risky a proposition for a small jurisdiction like ours, as we are about to discover. We should not be in the equally risky business of developing Muskrat Falls, a project which may well prove our undoing as costs escalate and schedules slip. There is no need to have Nalcor manage Bull Arm.

We have created a monster with wildly disparate parts and one of the casualties is the lack of attention to the most important part of Nalcor, Newfoundland and Labrador Hydro, which has resulted in the mess we find ourselves today.

There are many fine people working in Hydro who must be embarrassed by what has been allowed to happen to the public company they work for. The only way that this can be remedied is to create a separate board for Hydro and to appoint an experienced full-time executive to run Hydro and we urge the Board to so order.

Respectfully,

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Ratepayers