

September 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 (Hydro) pursuant to Subsection 41(3) of the Act for the approval of the Combustor Inspection and Overhaul of the Combustion Turbine located in Holyrood

Following is Hydro's submission with regard to the above noted application.

1.0 Application Background

On August 31, 2016, Hydro filed an Application for approval of capital expenditures for the inspection of the combustor and overhaul of the combustion turbine located in Holyrood (the Holyrood CT), which is necessary for the supply of safe and adequate and reliable power to the Island Interconnected System.

2.0 Intervenor Submissions

Newfoundland Power Inc., in its letter dated September 20, 2016, supports Hydro's application and stated that "Due to the importance of the Holyrood CT to the Island Interconnected system, particularly during the winter season, Newfoundland Power agrees that the combustor inspection and overhaul should be completed as proposed in the Application."

The Consumer Advocate did not have any questions or comments about this Application.

The Industrial Customers, in their letter dated September 20, 2016, also stated that it is prudent to proceed with the proposed application. In their submission, the Industrial Customers have also requested that Hydro reconcile its responses in NP-NLH-002 and NP-NLH-004 with respect to spinning reserve and to provide clarification as to why this Application was not filed until August 31, 2016. Hydro has addressed these issues below.

3.0 Hydro's Response

Spinning Reserves

Hydro submits that the two statements referenced by the Industrial Customers with respect to spinning reserves are not inconsistent as they refer to two different operating concepts. With

regards to Hydro's response to NP-NLH-004, Hydro maintains or targets a spinning reserve on the Island system to position the system to cover the single worst contingency of the loss of the largest generating unit during normal operating conditions. This could be up to 170 MW, depending on the largest unit in operation. With respect to the System Operating Instruction (NP-NLH-002, attachment 1) "ECC will take appropriate action to maintain a minimum spinning reserve level equal to 70 MW", this statement outlines the dispatch steps to be performed by the ECC in maintaining reserves. Hydro has established 70 MW as a minimum reserve level which will be maintained during times of generation shortfall or emergency conditions. A level of 70 MW covers performance uncertainties in the remaining online generating units, especially wind and other variable generation, and unanticipated increases in demand.

Timing of Application

Prior to the Holyrood CT being placed in service in Winter 2015, a forecast was prepared for the operation of the CTs on the Island Interconnected System. Based on this initial forecasted operation of the Holyrood CT from its in-service date to the end of 2017, it was originally anticipated that the Holyrood CT would accumulate an average of approximately 100 equivalent starts per year and require a Combustor Inspection and overhaul in the Spring of 2018. Due to unanticipated system events in 2015 and 2016, the Holyrood CT has operated more than initially expected, resulting in the original equipment manufacturers recommended 400 equivalent start overhaul being required earlier than 2018, possibly as early Spring 2017. As stated in Hydro's response to PUB-NLH-005, in December 2015, Hydro determined that there was a potential that the inspection and overhaul may have to be advanced to the fall of 2016. The potential Capital Budget Supplemental Application was recorded on the internal regulatory calendar at that time while further analysis was conducted to determine when the Holyrood CT would reach the 400 equivalent starts milestone. While Hydro's application for a standby fuel deferral account contemplated the increased use of the Holyrood CT, Hydro submits that, as noted in the report to this application, there is a difference between operating hours and starts. It was entirely possible to increase the operating hours of the Holyrood CT over forecast without increasing the number of forecast starts.

As stated in Hydro's response to PUB-NLH-006, the analysis to determine the ideal execution timing of the combustor inspection and overhaul is very complex, given the balancing of executing the work too early, thus not utilizing all available equivalent starts, and yet ensuring that the combustion turbine is fully available for the winter season. While Hydro recognizes that submitting this Application in August was not ideal, it had to ensure that advancing the project from 2017 to 2016 was the right course of action for its customers and that it was allocating resources properly.

Hydro submits that this Application has provided for due regulatory scrutiny as it followed the regulatory process as permitted and required by the *Board of Commissioners of Public Utilities Regulations, 1996*. Hydro recognizes, and agrees, that a compressed schedule is not ideal and takes every precaution to avoid such situations. Unfortunately, it cannot always be avoided.

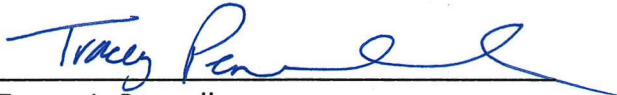
4.0 Conclusion

In summary, Hydro states that the capital works for which Hydro has sought approval in the present Application are necessary to ensure that Hydro can continue to provide service which is safe and adequate and just and reasonable as required by Section 37 of the Act. 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.

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