

October 26, 2018

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: Newfoundland and Labrador Hydro – 2019 Capital Budget Application

1 Introduction

Newfoundland and Labrador Hydro ("Hydro") filed its 2019 Capital Budget Application ("Application") with the Board of Commissioners of Public Utilities (the "Board") on July 31, 2018 seeking approval under Section 41 of the *Public Utilities Act* (the "Act") of \$115.9 million in capital expenditures. In that filing, Hydro also sought approval of its 2013 and 2014 average rate base in the amounts of \$1,546.9 million and \$1,621.0 million, respectively. The request for approval of the average rate base for 2013 was included in error and Hydro filed a revision to the Application on October 9, 2018 ("Revision 1") removing those references.

Hydro seeks approval of its 2019 Capital Budget projects and average rate base and, in support of that Application and Revision 1, makes the following submissions.

2 Legislative Framework

Section 37 of the *Act* requires Hydro to provide electrical service and facilities that are safe and adequate and just and reasonable. Section 41 of the *Act* also requires Hydro to obtain approval from the Board for its annual capital budget. In addition, Section 3 of the *Electrical Power Control Act, 1994* requires that Hydro provide electrical service that is efficient, that is provided such that its customers have equitable access to an adequate supply of power, and that is provided at least-cost consistent with reliable service.

Hydro submits that all projects that are before the Board in this Application are reasonably required to meet Hydro's obligations under the *Act* and the *Electrical Power Control Act, 1994* to provide power and service to its customers that is reasonably safe and adequate and at the lowest possible cost consistent with reliable service. Hydro notes that in the covering letter to its responses to requests for information dated October 3, 2018, Hydro informed the Board that it is withdrawing, from the 2019 Capital Budget Application, the continuation of the "Install

Automated Meter Reading (2018-2019) – Bottom Waters” project previously approved in the 2018 Capital Budget Application as per Board Order No. P.U. 43(2018). Hydro noted that it will re-examine the viability of implementing the current Automated Meter Reading technology prior to submitting any future proposals.

3 Specific Projects

Hydro notes that only the Iron Ore Company of Canada (“IOC”) provided submissions on the Application. The Island Industrial Customers Group, Newfoundland Power, and the Labrador Interconnected Group all stated that they had no comments regarding the Application. The Consumer Advocate did not participate in the Application process, either by asking requests for information or by filing comments. IOC’s submission included comments on one specific project within the Application and other general comments regarding the impacts on the capital budget of possible curtailment of IOC’s firm power to supply other customers in the area.

3.1 Labrador System Capacity

Volume II, Tab 6 – “Terminal Station Refurbishment and Modernization Proposal”

In its submission, IOC noted that Hydro confirmed in its response to IOC-NLH-003 that this project does not add transmission capacity. IOC expressed concern with the project definition and scope, and indicated its belief that the project will not drive value for customers.

In response, Hydro refers to the “Terminal Station Asset Management Overview” located in Volume II, Tab 6 of the Application. In that document, Hydro explained that it has developed an ongoing capital program to replace or refurbish assets as the end of design life is reached or the assets require attention due to obsolescence or anticipated failure. The requirement for this work is to ensure the delivery of safe, reliable, least-cost electricity in an environmentally responsible manner. In that sense, IOC’s submission that this project will not drive value for customers is not correct. The value provided to customers is in the provision of reliable service which would be in jeopardy, due to obsolescence or failure of assets, should this project not proceed. Hydro also notes that IOC, in its comments, did not specifically object to the approval of this project.

3.2 Curtailment of IOC Firm Power

IOC stated that it is greatly concerned by the possible curtailment of firm power it receives to supply its competitor and newcomer Tacora Resources (“Tacora”) while the said competitor may have alternative self-generation on-site.

Hydro notes that as it stated in reply to IOC-NLH-006, the reopening of Wabush Mines by Tacora has no impact on Hydro’s proposed 2019 capital expenditures. Accordingly, this topic is neither relevant to the current Application nor of any assistance to the Board in making determinations therein. In addition, the Board does not have jurisdiction over the contractual provisions governing the firm power supplied to industrial customers in Labrador, including

both IOC and Tacora. To the extent that IOC has objections to the firm power it is supplied, the Board is not the correct forum through which to address these.

IOC also commented that, in its opinion, Hydro did not fully answer questions regarding future foreseeable impacts of service to Tacora and the timing of its service. Hydro maintains its response to IOC-NLH-006 which was quoted by IOC:

Q. (A) Describe the impacts of the re-opening of the Wabush Mines by Tacora Resources on the 2019 capital expenditures? Similarly, what capital investments does NLH anticipate post-2019 resulting from the Wabush Mines re-opening?

(B) Have NLH's expectations regarding the Wabush Mines re-opening changed over the last year? Please provide a timeline of the evolution of NLH's expectations (date, ramp-up, firm and non-firm power requirement, costs, etc.) up to now.

A. (A) The re-opening of the Wabush Mines by Tacora Resources has not had any impact on proposed 2019 capital expenditures.

As for anticipated post-2019 capital investments, Hydro is engaged in an expansion study of the Labrador Interconnected System, which is planned to be filed with the Board by October 31, 2018. Capital projects that may result from this study will be submitted to the Board in a future application.

(B) The details of commercial discussions between Hydro and Tacora Resources are subject to a Non-Disclosure Agreement. Moreover, pursuant to subsection 5.8(2) of the *Electrical Power Control Act, 1994*, the *Public Utilities Act* does not apply to the setting of rates to the industrial customers in Labrador other than their transmission components.

Hydro feels it necessary to reiterate that no capital expenditures for 2019 in relation to the provision of service to Tacora have been proposed, which renders the topic irrelevant to the current Application.

Finally, IOC stated that as a policy matter:

it would be prudent for the Board to request NLH to fully disclose the information in the present proceedings as it will inform the Board on the adequacy of the investments in and facilitate the review of the coming expansion study of the Labrador transmission system.

Hydro agrees that the Board should be fully informed of all information relevant to the current proceeding. This does not include the information being sought by IOC as: (i) there are no relevant 2019 capital expenditures being proposed over which the Board has jurisdiction to review and (ii) such information is subject to contractual confidentiality provisions.

4. General

In summary, Hydro states that the capital works for which Hydro has sought approval in the 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 with Revision 1, and with the withdrawal of the aforementioned continuation of the "Install Automated Meter Reading (2018-2019) – Bottom Waters" project previously approved in the 2018 Capital Budget Application as per Board Order No. P.U. 43(2018).

Should you have any questions or comments about any of the enclosed, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Michael S. Ladha
Legal Counsel & Assistant Corporate Secretary
MSL/sk

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey
ecc: Denis J. Fleming – Cox & Palmer
Sheryl Nisenbaum – Praxair Canada
Van Alexopoulos – Iron Ore Company of Canada
Senwung Luk – Olthuis Kleer Townshend LLP

Dennis Browne, Q.C. – Browne Fitzgerald Morgan & Avis
Dean Porter – Poole Althouse
Larry Bartlett – Teck Resources Ltd.
Benoît Pepin – Rio Tinto