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October 7, 2013

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Via Electronic Mail & Courier

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

Attention: Ms. G. Cheryl Blundon, Board Secretary

Dear Ms. Blundon:

Re: 2014 Hydro Capital Budget Application

We enclose the original and eight (8) copies of the Submissions of the Island Industrial Customers in relation to the above Application.

We trust you will find the enclosed to be in order.

Yours truly,

Stewart McKelvey

Paul L. Coxworthy

PLC/kmcd

Enclosures
c. Mr. Geoffrey P. Young, Senior Legal Counsel, Newfoundland and Labrador Hydro
Mr. Thomas J. Johnson, Consumer Advocate
Mr. Gerard Hayes, Newfoundland Power
Mr. Liam O'Brien, Newfoundland Power
Mr. Dean A. Porter, Poole Althouse
Ms. Leanne M. O'Leary, Vale Newfoundland and Labrador

IN THE MATTER OF the *Public Utilities Act*, (the "Act"); and

IN THE MATTER OF an Application by Newfoundland and Labrador Hydro for an Order approving (1) its 2014 Capital Budget pursuant to s. 41(1) of the Act; (2) its 2014 capital purchases and construction projects in excess of $50,000.00 pursuant to s. 41(3)(a) of the Act; (3) its leases in excess of $5,000.00 pursuant to s. 41(3)(b) of the Act; and (4) its estimated contributions in aid of construction for 2014 pursuant to s. 41(5) of the Act and for an Order pursuant to s. 78 of the Act fixing and determining its average rate base for 2012.

WRITTEN SUBMISSIONS OF THE ISLAND INDUSTRIAL CUSTOMERS

Introduction

These are the written submissions of Corner Brook Pulp and Paper Limited, North Atlantic Refining Limited, and Teck Resources Limited (the "Island Industrial Customers") in relation to Hydro's 2014 Capital Budget Application.

Electrical Power Control Act, 1994

Hydro's Capital Budget process is governed by the Electrical Power Control Act, 1994 (the "EPCA"). Section 3(b) of the EPCA states:

> *3(b) all sources and facilities for the production, transmission and distribution of power in the province should be managed and operated in a manner*
>
> *(i) that would result in the most efficient production, transmission and distribution of power,*
>
> *(ii) that would result in consumers in the province having equitable access to an adequate supply of power,*
>
> *(iii) that would result in power being delivered to consumers in the province at the lowest possible cost consistent with reliable service.*

Section 4 of the EPCA charges this Board with the responsibility of implementing the power policy set out in section 3.

Implementation of power policy must not only be "consistent with reliable service" but must also ensure that power is produced, transmitted and distributed in the "most efficient" manner at the "lowest possible cost". Focus should not be lost on each of these principles of the power policy and each must be balanced against each other, often requiring the making of difficult decisions by this Board.

Hydro's Proposed and Projected Capital Expenditures for 2013-2017

The Island Industrial Customers have in past Capital Budged Applications (including the 2013 Capital Budget Application) taken great exception to the growing nature of Hydro's capital expenditure demands.

The actual capital expenditures for the period 2009-2012 are found at page H-I of the Capital Budget Application, along with the presently budgeted capital expenditures for the 2013-2018 period, both of which are reproduced below:

Schedule of Capital Expenditures 2009-2012 ACTUALS			
2009	2010	2011	2012
54,152	55,553	63,116	77,252

Schedule of Capital Expenditures 2013-2018 BUDGET					
2013	2014	2015	2016	2017	2018
115,702	151,702	209,008	164,201	144,555	140,441

The 2014 capital budget of $98.7 million sought to be approved by the present Application does not include the proposed 2014 capital expenditures for the Bay d'Espoir to Western Holyrood Avalon 230 KV transmission line addition ($6.37 million) and the new combustion turbine at Holyrood ($46.4 million), which, given their "magnitude" (in Hydro's words), Hydro felt should be considered separately in the next several weeks (see response to RFI NP-NLH-1)).

Considered in this overall context of all Hydro's planned 2014 capital expenditures, the total amount of that expenditure, $151.7 million, represents an over 100% increase in capital expenditures compared to the average annual expenditure ($73.1 million) in the previous 5 years (2009-2013). Planned capital expenditure levels for the next 4 years (2015-2018) will stay near to or exceed this extraordinarily high level, in many respects to extend the life of infrastructure which will be of redundant, or at least questionable, use to the production, transmission and distribution of electrical power in the "most efficient" manner at the "lowest possible cost", after the Labrador In-Feed.

The Island Industrial Customers, in its previous years' submissions, have highlighted this very worrying escalation in Hydro's capital expenditure – escalation that Hydro has exhibited no tangible effort to mitigate or moderate.

The Island Industrial Customers submit that in the context of this extraordinary escalation in capital expenditure, the "lowest possible cost" principle can only be given meaningful effect if Hydro's justifications for its proposed capital expenditures are subjected to rigorous scrutiny, so that Hydro's customers, including the Island Industrial Customers, can be assured that they are being provided power in accordance with section 3(b) of the EPCA.

Individual 2014 Capital Budget Projects

The Island Industrial Customers comment below on some of the individual projects proposed by Hydro's Application. The Island Industrial Customers would note that the fact that they have not passed comment on a particular project does not necessarily indicate endorsement of that project. The Island Industrial Customers anticipate, based on past experience, that the other Intervenors and the Board will also exercise their own due scrutiny of the Application, informed by their respective perspectives and mandates.

Upgrade Shoreline Protection – Cat Arm, p. C-11.

- ***Proposed Capital Expenditure: $55.3 thousand (2014); $708.1 thousand (2015)***

At page C-11 of Hydro's Capital Budged Application, Hydro seeks approval for the upgrading of an 80 m section of that road accessing the 127 MW Cat Arm Hydroelectric Development near the powerhouse at Devil's Cove. More specifically, Hydro seeks approval to upgrade the

armour stone wave barrier at the waterline edge (for wave protection) and the placement of rock fill material to re-establish a stable road embankment.

In response to RFI IC-NLH-3, Hydro contends that the two (2) year project, of which the first year (2014) involves engineering investigation and design, will ensure the "least cost alternative" is identified to adequately address the shoreline protection issue.

The Island Industrial Customers submit that any approval granted by the Board should be limited to the proposed 2014 estimated expenditures for investigation and design. The Island Industrial Customers submit that no further expenditures should be approved until Hydro has filed a report based on the 2014 engineering investigation, identifying all options considered and providing justification for the option finally proposed by Hydro based on the engineering investigation, thereby allowing for due process for the Board and the Intervenors to assure that electrical power is being provided in the "most efficient" manner at the "lowest possible cost".

Upgrade North Cut-Off Dam Access Road, p. C-13

- ***Proposed Capital Expenditure: $631.7 thousand***

Pages C-13 and C-14 of its Capital Budget Application outline Hydro's request for approval of an upgrade to the North Cut-Off Dam Access Road, a project with an estimated budget of $631,700, and which is ranked 36th in Hydro's 2014 Project Prioritization Schedule (out of total rankings of 46).

Hydro confirms that the roadway has been able to be maintained by routine maintenance over the past fifty (50) years and that no major upgrades or work have been necessary (page C-14). As noted at Table 1, page 7 of the Report filed by Hydro in support of this project (Tab 5), the eight (8) kilometer roadway has required under $9,000 in maintenance during the 2008-2013 period (averaging less than $2,000 per year).

Hydro's major justifications for the project are:

(i) Uneven, rough driving surface which is difficult to drive over safely and promotes wear on vehicles and risk to Hydro personnel; and

(ii) Road drainage systems have deteriorated, resulting in washouts and erosion damage, requiring repairs (presumably using only routine maintenance and minor work).

At section 3.2.1 of the Report filed by Hydro (page 6 of Tab 5), entitled "Safety Performance", Hydro contends that the "potential for mechanical damage to vehicles is significantly increased" and that while attempting to conduct repairs on such vehicles, employees are at increased risk for injuries such as "heavy lifting, crushing, burns and abrasions".

In response to RFI CA-NLH-31, Hydro confirms that the roadway is not plowed during the winter and that scheduled inspections are carried out via snowmobile when the road is not passable by four-wheel drive trucks. Further, in response to RIF's CA-NLH–32 and CA-NLH-33, Hydro confirms that four-wheel drive trucks are provided to its employees to access the LD-2 and LD-6 hydraulic structures and that the roadway has been impassable to heavy equipment for approximately 15 years (and in its present state for 3 years).

Finally, Hydro responds to RFI CA-NLH-34 by confirming that this "and other access roads" are up-kept using standard maintenance techniques, an annual vegetation maintenance program and corrective repair.

The Island Industrial Customers submit that Hydro has failed to provide sufficient justification as to why this project needs to be carried out at this juncture when routine upkeep in the range of $2,000 per year has maintained the roadway of its current state for numerous years.

The Island Industrial Customer's maintain that it is somewhat disingenuous for Hydro to maintain, as justification for this project, that the roadway must be repaired to allow heavy equipment to pass in an emergency situation, when they have been, apparently, unable to do so for fifteen (15) years and Hydro does not plow the road when doing so would provide such access, inexpensively, during the winter season.

The Island Industrial Customers submit that Hydro has not demonstrated that approval of this project is consistent with providing electrical power in the "most efficient" manner at the "lowest possible cost".

Upgrade Excitation Systems Units 1 & 2, p. C-22

- ***Proposed Capital Expenditure: $654.3 thousand (2014); $456.6 thousand (2015)***

Hydro, at pages C-22 through C-23 of its Capital Budget Application, seeks approval for the replacement of the control section of the existing ABB Inc. Unitrol P exciters of Units 1 and 2 at Holyrood with Unitrol 6080 Controls.

The budget estimate for the project, found at Table 1 of page C-22, is $1,110,900, with Hydro ranking the project 23rd in its 2014 Project Prioritization Schedule.

As noted by Hydro at page C-22 of its Application, the controllers have "worked well since their installation on Unit 2 in 1999 and Unit 1 in 2000" and no forced shutdowns as a result of the controllers have been experienced. At page 5 of the Report filed by Hydro in support of this project, found at Volume II, Tab 9, it is confirmed that "reliability performance" is not a basis for this proposal.

Hydro's rational for the replacement relies largely on its assertion that because the controllers are now in the "Limited Phase" and will enter the "Obsolete Phase" in 2015, a replacement "solution" (supported by the manufacturer/vendor) is needed to reach 2020/2021 (2020/2021 being the date when unit standby is no longer required: see Volume II, Tab 9, page 1).

As will be noted from Table 1 of the Report (found on page 4 of Tab 9), Hydro currently has a supply of spare parts on hand which meets (or exceeds) the safety stock required for emergency use.

Hydro acknowledges, at section 3.4 of the Report, that an alternative to its proposal would be to purchase spare parts based on consumption to date however "in 2015 additional parts will not be supported by ABB".

In response to RFI CA-NLH-4, Hydro acknowledges that "spare parts inventory could be increased but if they are consumed within the remaining operating period for Units 1 and 2 other parts may not be available, when needed, from ABB Inc.".

Further, in response to RFI V-NLH-21, Hydro relates that the cost to purchase a full complement of spare parts (with the exception of the combined I/O of which there are currently two (2) in stock) would only be $97,028.

Given Hydro's own low priority ranking for this project, and the availability of a relatively inexpensive alternative to remedy the minimal risk associated with maintaining the existing controls to 2020/2021 (when unit standby will not be required), the Island Industrial Customers submit that Hydro has failed to establish that approval of this project is consistent with providing electrical power in the "most efficient" manner at the "lowest possible cost".

Upgrade Diesel Plant Protection Data Collection Equipment, p. C-60

- ***Proposed Capital Expenditure: $268.9 thousand (2014); $269.8 thousand (2015); $280.7 thousand (2016)***

At page C-60 of its Capital Budget Application, Hydro seeks approval of a three (3) year project to upgrade its production data collection method from telephone communications to network communications in various remote diesel plants (and to install network communications where there are no metering data communications currently in place).

With an estimated total budget of $819,400, of which $268,900 is estimated to be spent in 2014 when seven (7) plants will be upgraded, this project is ranked 45th out of 46 projects by Hydro.

At page C-61, Hydro justifies this project on the basis as follows:

> "The driver for this project is to provide load data for each of Hydro's diesel plants as input for planning future plant upgrades and engine sizing and to enable analysis to ensure that each plant is operating properly, in the most efficient manner and with minimal emissions."

In response to RFI CA-NLH-13, Hydro confirms that "planning for future plant upgrades and engine sizing is not dependent" on approval of this project. Further, in response to RFI NP-NLH-30, this project is not economically justified.

Hydro's response to RFI CA-NLH-12 highlights the scores on each of six criteria used to rank the project 45th out of 46th as follows:

> "Safety: scored 30 out of a possible 500;
> Can continue service to customers: scored 10 out of 350;
> System impact critical to plant: scored 70 out of a possible 270; and
> Loss type – None: scored 15 out of a possible 270."

Hydro has failed to establish, with any compelling evidence, that approval of this project is consistent with providing electrical power in the "most efficient" manner at the "lowest possible cost".

Replace Light-Duty Mobile Equipment – Various Sites, p. C-68

- ***Proposed Capital Expenditure: $579.1 thousand***

Hydro, at pages C-68 to C-69 of its Capital Budget Application, seeks approval of a $519,100 project to replace existing light duty mobile equipment and to add eight (8) pole trailers for remote communities.

Hydro relates that the pole trailers are required for "safety reasons" (page C-69) to allow safe transport of poles through communities during pole replacement and installation work.

In RFI PUB-NLH-24, the Board requested that Hydro detail the safety concerns "making it necessary, at this time, to purchase eight (8) additional pole trailers for remote communities". In response, Hydro simple outlines that poles are currently moved by "dragging them behind a vehicle or using a backhoe to carry them, practices which may lead to injury to the public or employees".

The Island Industrial Customers submit that in light of Hydro's bald assertion regarding the risk associated with current practice, unsubstantiated with any specifics as to risks associated with current practice or statistics/recounts of incidents experienced through such practices to date, the request for approval to purchase the eight (8) pole trailers should be denied by the Board.

Replace Vehicles and Aerial Devices, p. C-68

- ***Proposed Capital Expenditure: $579.1 thousand***

This project seeks approval for the replacement of thirty-two (32) light-duty vehicles and seven (7) heavy-duty vehicles in accordance with Hydro's established replacement criteria for vehicle age and kilometers as follows:

"Light-duty vehicles:	5-7 years or 150,000 km
Heavy-duty work vehicles:	
- Class 4, 5, and 6	6-8 years or 200,000 km

- Class 7 and 8 6-8 years or 250,000 km"

At page C-69 of the Capital Budget Application, Hydro confirms that "future replacements of vehicles and aerial devices will be proposed in future Capital Budget Applications".

In response to RFI IC-NLH-59, which requested that Hydro provide details of average replacement criteria used by other Canadian utilities, Hydro related that it had "limited information on other Canadian utilities and their replacement programs", providing only replacement criteria for one (1) other Atlantic utility.

Though the Island Industrial Customer's do not necessarily oppose the Board's approval of this project if it is satisfied with Hydro's submission as contained in the Capital Budget Application (and in subsequent responses to RFIs filed on this project), the Island Industrial Customer's submit that Hydro should be required to acquire (and supply as part of any proposal for the future replacement of vehicles and aerial devices in future Capital Budget Application) available replacement criteria used by other utilities across Canada.

Install Handheld Pendant to Overhaul Crane, p. D-98

- ***Proposed Capital Expenditure: $49.9 thousand (2014); $170.8 thousand (2015)***

Hydro is seeking approval through this project for the installation of a remote handheld pendant and base station to supplement the local controls located within the cab of the overhead crane located in the Bay D'Espoir Powerhouse 1.

Hydro contends that the cab, which sits below the crane, requires an operator (with fall arrest training) to work the current controls and a second operator at floor level to guide and inform the operator of required crane movements (due to decreased visibility).

As justification for the project, Hydro maintains that the project could alleviate:

(i) The need for an operator to access the cab and therefore fall arrest training would not be required;

(ii) Operators being subjected to long hours in uncomfortable conditions; and

(iii) The need for a second operator.

Hydro also contends that the operator could move freely about during lifting to assess crane movements and load placement, and operator training would be better facilitated by using a remote control station in a more comfortable environment.

Hydro relates that the current cab is subject to high temperatures (which has been partially remedied by the placement of a fan) and has tight confines.

Hydro contends that the crane, which required less than $7,000 maintenance in 2011/2012 combined, and has a seventy (70) year service life (which does not expire until 2037: see Response to RFI NP-NLH-13), is utilized as follows:

> "The crane can be needed for use at any time of the year for moving heavy equipment around the powerhouse. From May through August, the crane can be used weekly and needs two operators for most of each day. For critical work such as generator overhauls, rewinds and generator bearing upgrades, this can increase to operation over an entire day for two operators over several consecutive days. The crane performs its intended function but the working environment for the operator in the cab is not suitable on the basis of requirements and restrictions for working at heights, excessive heat, and that the operator is constrained to the cab once crane maneuvers are underway."

Unfortunately, when questioned by Newfoundland Power in RFI NP-NLH-12, Hydro could not provide any recorded data for the number of hours the existing cab was occupied in each year from 2008 through 2012.

Relying upon broad estimation at best, Hydro attempted to extrapolate the hours the cab might have been occupied in each year in its response to RFI NP-NLH-12.

The Island Industrial Customers submit that Hydro has failed to establish, with any degree of certainty, that this project is justified and suggest that consideration of the project be deferred to a later date when Hydro can provide statistics on the actual occupation of the cab (preferably over a minimum twelve (12) month period).

Inspect Fuel Storage Tanks, p. D-114

- ***Proposed Capital Expenditure: $495.0 thousand***

At pages D-114 to D-119 of its Capital Budget Application, Hydro seeks approval of a project to complete detailed inspections of above ground fuel storage tanks and associated fuel supply systems within Hydro to identify corrective and preventive maintenance items.

Of the estimated total budget of $495,000, $370,100 is allotted to "labour" and "contract work".

Though the Island Industrial Customers are cognizant that "Hydro must ensure that its fuel storage tanks are maintained in a safe, reliable operating condition" (as stated on page D-116), and accept that reasonable inspection regimes are an integral component of Hydro's operations, the Island Industrial Customer's submit that the project, as proposed, is not the least cost option to carry out the necessary inspections.

As noted at pages D-117 to D-118, "routine inspection and maintenance of the fuel storage tanks is performed by Hydro personnel, with standardized external and internal inspections performed by a certified inspection agency".

Hydro confirms, in response to RFI CA-NLH-21, that Hydro has no employee who is an authorized API inspector at present.

The document attached to Hydro's response to RFI CA-NLH-22 sets forth the training needed to become an authorized API inspector who could carry out inspections (in accordance with this project).

The Island Industrial Customers submit that Hydro has not provided any justification as to why Hydro personnel could not be trained to the API standard for inspections of the fuel tanks at issue.

The Island Industrial Customers submit that without adequate justification as to why Hydro personnel could not take the API 653 examination and, upon certification, carry out the required inspections, Hydro has failed to demonstrate that this project is consistent with providing electrical power to Hydro's customers in the "most efficient" manner at the "lowest possible cost".

In addition, the Island Industrial Customer's submit that Hydro has not justified why external fuel tank inspections should be characterized as "capital expenditures" and submit that such procedures would be more appropriately expensed by Hydro.

In response to RFI NP-NLH-14, Hydro outlines the criteria it utilizes to determine whether to expense or capitalize equipment inspections. Dividing its condition inspections into "Level 1" and "Level 2" inspections, the former being expensed and the latter capitalized, Hydro provides itself broad and unsubstantiated latitude to label any given inspection as a capital expenditure.

Unfortunately, a review of the material filed in support of this project provides insufficient justification for the Board's consideration as to why external fuel tank inspections are appropriately capitalized in this instance. As such, the Island Industrial Customer's maintain that this project should not be approved by the Board until further information is submitted by Hydro on this subject (following which the parties would be provided with sufficient information to make further submissions on the issue).

Remove Safety Hazards – Various Sites, p. D – 204

- ***Proposed Capital Expenditure: $257.8 thousand***

Hydro, at pages D–204 to D-208 of its 2014 Capital Budget Application, seeks approval of a $257,800 project to address "safety hazards" as they are identified through Hydro's Safe Work Observation Program (SWOP).

Hydro contends that this project is justified on Hydro's requirement to provide a safe work environment for its employees in compliance with Occupational Health and Safety Regulations (OH&S).

In response to RFI NP-NLH-16, which requested that Hydro provide a justification for the $257,800 project estimate in light of the capital expenditure history provided in Table 3, Hydro related that "given the nature of the Remove Safety Hazards program it is difficult to forecast the scope of the work and generate a detailed estimate during the budget preparation state" and "the budget request considers variations in the size and number of projects which may arise across the geographic regions serviced by Hydro".

At page D–207 of the Capital Budget Application, Table 3 indicates that all actual expenditures for the removal of safety hazards have come in below the capital budget for the years from 2010 – 2012, by as much as $107,700.

The Island Industrial Customers submit that Hydro has failed to establish with any degree of certainty that the budget for this project (and forecasting methodology used in the budget preparation stage) are justified, and suggest that consideration of the project be deferred to a later date, until Hydro can provide a more detailed forecast to justify the proposed budget.

1 **Costs**

2 The Island Industrial Customers request that the Board make an order in their favour for their
3 costs of participation in the Application.

4 **All of which is respectfully submitted on behalf of the Island Industrial Customers.**

DATED at the City of St. John's, in the Province of Newfoundland and Labrador, this 7th day of October, 2013.

POOLE ALTHOUSE/STEWART MCKELVEY
Solicitors for the Island Industrial Customers

Per: _____
Dean A. Porter

Per: _____
Paul L. Coxworthy

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