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October 7, 2013

VIA COURIER and ELECTRONIC MAIL

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 Capital Budget Application of Newfoundland and Labrador Hydro

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Please find enclosed the original and twelve (12) copies of the Written Submissions of Vale Newfoundland & Labrador Limited in respect of the above-noted Application.

We have provided a copy of this correspondence, together with enclosures, to all concerned parties.

We trust you will find the enclosed satisfactory.

Yours very truly,

Leanne M. O'Leary

LMO/js
Encl.

c.c. Geoffrey P. Young, Senior Legal Counsel, Newfoundland & Labrador Hydro
Gerard Hayes, Senior Legal Counsel, Newfoundland Power
Liam O'Brien, Curtis Dawe
Consumer Advocate, Thomas J. Johnson, O'Dea, Earle
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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 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 VALE NEWFOUNDLAND & LABRADOR LIMITED

The following are the written submissions of Vale Newfoundland & Labrador Limited ("Vale") in relation to Newfoundland and Labrador Hydro's ("Hydro") 2014 Capital Budget Application before the Newfoundland and Labrador Board of Commissioners for Public Utilities (the "Board").

I. Introduction and General Comment

Vale is currently constructing a metallurgical processing plant in Long Harbour, Newfoundland and Labrador. When the Long Harbour plant commences operation and ramps up production it is expected to become Hydro's largest industrial customer, at approximately 2/3rds of the total industrial customer load, based on

current projections of Vale usage and total industrial customer load. As such, Vale will become the largest end consumer of electricity on the island Interconnected system, consuming in excess of 5% of the total energy sold and therefore bearing the similar portion of the costs of the island Interconnected system. Vale is projected to pay approximately 5% of the island Interconnected portion of the Capital Budget which represents approximately 80% of the total Capital Budget [PUB-NLH-1, Attachment 1; 2014 Capital Budget Application]. It is in this context that Vale makes the following submissions on the 2014 Capital Budget application.

The *Public Utilities Act* provides in Section 41 that a public utility must submit an annual capital budget of proposed improvements or additions to its property for approval of the Board (s. 41). Section 3(b) of the *Electric Power Control Act, 1994* ("*the EPCA*") governs the Board's review and consideration of Hydro's capital budgets. Section 3(b) of the EPCA states that all sources and facilities for the production, transmission and distribution of power in the province should be managed and operated in a manner that results in i) the most efficient production, transmission and distribution of power, ii) equitable access to an adequate supply of power for all consumers in the province and iii) the delivery of power to consumers at the lowest possible cost consistent with reliable service. Section 4 of the EPCA provides the Board with responsibility for implementation of the power policy set out in Section 3.

Overall, in this Application, the obligation is on Hydro to establish that the proposed expenditures are necessary in the year proposed and are the lowest cost alternative to ensure reliable service for consumers in the province. Vale has significant concerns about the proposed 2014 Capital Budget and the overall growth in the capital expenditures of Hydro, both in the historical data and the forecast capital expenditures over the next five years. While Vale has not requested a hearing on this Application, it relies on the Board to scrutinize the overall capital budget and each specific project in the context of the submissions of each of the Intervenors.

II. LEVEL OF CAPITAL EXPENDITURE

i) The Current 2014 Capital Budget Application

Vale submits that apart from the examination and commentary on individual projects outlined in the 2014 Capital Budget the Board must continually examine the overall levels of capital expenditure proposed by Hydro in the larger context of ensuring that expenditures are required in that year and represent the least cost alternative.

In past submissions to the Board, particularly from the Industrial Customers and the Consumer Advocate, there has been repeated concern expressed over Hydro's growing capital expenditure and the unchecked growth of same. Vale submits that it has significant concerns about the exponential growth in the proposed overall capital budget for 2014. As part of its regulatory function the Board has an obligation and duty to scrutinize the overall quantum of each annual capital budget. This includes an assessment of the growth of the level of capital expenditure and the impact this

growth has on the provision of electrical services in the province. The lack of competition in Hydro's industry requires that the Board provide oversight on its' level of capital expenditure. This oversight is necessary to ensure that Hydro's legislative obligation to provide a reliable service at the lowest possible cost is achieved over time.

Notwithstanding the critical review received on past capital budget submissions, the 2014 Capital Budget Application continues the trend of proposing escalating capital expenditures. The continued growth of the capital budget dictates another review and examination in response to the 2014 Capital Budget Application.

The planned 2014 expenditure represents an approximate increase of 30% over the year prior if you include the supplemental application to be made to the Board over the fall 2013 (2014 Capital Plan, Appendix 1, p.A2). The actual Capital Expenditures for the period 2004 through to 2008 (2009 Capital Budget Application, Section G, page G-1 & Section H, page H-1) and 2009 through 2013 (V-NLH-4, Attachment 1) are presented below. This historical data demonstrates the increase in capital costs over the past ten years to the degree that the currently proposed Capital Budget for 2014 is almost four times the actual expenditures just ten years ago. This increases to a multiplier of five times if the $151,400,000 projection, which includes the supplemental application amount, is used as referenced at 2014 Capital Plan, Appendix A, p. A2.:

Capital expenditure from 2004 to 2008 in $000.

2004	2005	2006	2007	2008
27,984	33,952	41,217	35,669	52,836

Capital expenditure from 2009 to 2013F in $000

2009	2010	2011	2012	2013
54,152	55,553	63,116	77,252	115,278

The proposed budget included in this application for 2014 of $98,700,000 is consistent with the forecast actuals for 2013. However, the forecast expenditures over the next five years, including the current 2014 application year, signifies that the annual level of capital expenditure is forecast to remain at this escalated level. Further, comparison to the projections made for this same time frame in the 2013 Capital Budget Application reveal an overall increase in forecasting by Hydro in favor of increasing expenditures.

2014 Capital Budget from 2014 to 2018 in $000 (2014 Capital Plan, Appendix A, page A3)

2014	2015	2016	2017	2018
98,668	209,008	164,201	144,555	140,441
151,449 (with supplemental)				

2013 Capital Budget from 2013 to 2017 in $000 (2013 Capital Plan)

2013	2014	2015	2016	2017
66,145	111,682	135,224	136,100	153,322

The forecast for 2014 through 2018 is for the annual level of capital expenditure to remain at this very high level. In fact, a look forward at the forecasted 2015 budget as contained in the 2014 Capital Budget application reveals further expansion to the capital budget, almost four times the budget five years prior in 2010 and almost double the capital budget for the year prior, 2014. Such exponential growth to maintain existing systems must be stringently analyzed and scrutinized. While the 2015 budget is not a part of this application, the inclusion of the 5-year forecast provides a strong signal that the approach of Hydro on capital expenditures will not change, but continue, into the next 5 years.

The increase in capital expenditure has a real and sizable impact on Hydro's rate base and ultimately provincial rate payers. Vale's overriding concern of the impact that the proposed future level of capital expenditures will have on rates is quantified in PUB-NLH-34 and PUB-NLH-36. Employing Hydro's proposed annual forecast for capital expenditures, the increase in annual revenue requirement from 2013 to 2018 is estimated at $73,244,000 (PUB-NLH-34). This increase in revenue requirement is derived solely and strictly from the escalating increase in capital expenditure. Vale submits that this reality alone mandates an active and engaged examination of Hydro's budgeting practices and project justifications on each annual budget application and on the overall five-year forecast. As there is a direct link between the escalating capital expenditures and increasing costs to all customers in the province, the Board must engage now to stringently assess Hydro's overall assertion that the capital expenditure at current and forecast levels are reflective of

inflation, the replacement and upgrading of deteriorating facilities, ensuring legislative compliance and, most particularly, additions to meet load growth.

As approximately 80% of the capital budget expense is in the island Interconnected system, one can reasonably estimate that 80% of the increase in annual revenue requirement between 2013 and 2018 (or $58,595,000) will end up being paid by island Interconnected customers. This is in addition to an anticipated impact on island Interconnected ratepayers in 2018 due to increased generation costs. Based on Hydro and Nalcor available information, it is estimated that total revenue requirement will increase by $300 million in the five years to 2018, or by 60%. [2018 revenue requirement was calculated with reference to 2013 Test Year revenue requirement; 2013-2018 impact due to increased capital, 2018 Muskrat Falls Power Purchases and 2013 Test Year Holyrood fuel]. While Hydro uses anticipate load growth as a justification for the capital budget expansion, over the same five years load growth is expected to increase by only 9% for Island Interconnected customers [Volume II of the Application, Tab 8, *Condition Assessment and Life Extension*, Appendix F, p.F17]. With this shocking increase in rates Hydro must be expected to do everything reasonable to keep rates low for their customers and ultimately the economic benefit of the people of the province. Strikingly, throughout 2000 pages of its 2014 Capital Budget Hydro emphasizes reliability in numerous places, but fails to discuss the overall impact on rates of the proposed capital budget for 2014 and the forecasted five-year plan.

ii) Supplemental Application

Hydro's practice of filing supplementary applications for capital projects while an annual Capital Budget is before the Board has continued over the past several years and is of concern to Vale. The practice fuels concern over Hydro's overall approach to capital budgeting and the developing trend of larger amounts of capital expenditures held over for inclusion within supplemental applications to the Board. At the time of these written submissions a supplementary application is anticipated for a substantial capital expenditure equaling more than 50% of the overall 2014 Capital Budget currently proposed, or an extra $52,800,000. Given the significant amount involved in the proposed supplemental application, Hydro ought to have had a sufficient lead time to allow its inclusion in the main 2014 Capital Budget application, in place of a supplementary application within a short time frame of the application process.

The 2014 Capital Plan, Appendix A, lists a project to add a 60 mW gas turbine at a total cost of $99,444,600. In response to NP-NLH-1 which questioned the timing of the application for this project, Hydro advised that the application would be filed "within the next several weeks". Given the absence of complete information on the proposal, Vale cannot and should not comment at this stage on the individual merit of this proposed capital expenditure. However, Vale submits that such expansive applications and projects should have been ready for filing as part of the 2014 Capital Budget application and subjected to analysis as part of the overall application as opposed to splitting the proposed expenditures over separate applications. As

part of the overall 2014 Capital Budget such significant expenditures must be scrutinized to ensure that all alternative solutions have been thoroughly examined. All information currently available on this project, including the reply to V-NLH-29, suggests they have not. Vale submits that the Board should remain attentive to the impact of supplemental applications while assessing the reasonableness of the proposed level of capital expenditure each year, and as a trend over time and in forecasts.

iii) Recommendation re Capital Budgeting

Vale recognizes that Hydro prepared the 2014 Capital Budget within the framework of the existing legislation and Board Orders. It is not recommended that any change in the capital budget procedure be implemented for the current Application before the Board. However, as previously discussed, Vale has significant concerns about the high level of capital expenditure proposed in this Application and the trend for continuing growth as noted in the projections for the years 2015 to 2018. The current rate-of-return regulation provides an incentive to Hydro to increase capital expenditure. Globally, there are numerous other regulator models and practices being employed by utilities. For example, these other models include the Australian building block model, the UK price-cap (RPI-X) regulation, and a risk ranking system for asset replacement. At this stage, Vale is not recommending any particular system or practice for use in Newfoundland and Labrador and similarly, it is not recommending substantial changes to current models as opposed to a potential improvement to the existing system.

Vale respectfully submits that the Board should engage a knowledgeable, independent third party to study the possibilities that exist for improvement to the current regulation system. Ideally, this independent party should have global experience, with the ability to outline utility capital budgeting approaches from other jurisdictions including a review of the "best practices" used to regulate capital expenditures within the rate-of-return regulation model. Finally, it is submitted, that this independent party could explain the benefits and shortcomings of each improvement and make practical recommendations for reform or improvement to the system in our jurisdiction. Vale respectfully submits these recommendations as a way to ensure that the utilities in Newfoundland and Labrador are best conforming to the dual statutory requirements of 'least cost' and 'reliable service'.

THE FUTURE OF HOLYROOD

A related discussion to the unchecked growth of Hydro's capital structure and of equal concern to Vale is the high level of capital expenditure at Holyrood, a facility that will be shut down or placed into stand-by mode when Muskrat Falls comes on line, estimated by Hydro as 2017 (V-NLH-11). The actual capital expenditures for Holyrood over the 5 year period from 2007 to 2011 averaged $7,492,000 annually. The actual expenditure in 2012 and forecast for 2013 is $15,219,000 and $30,187,000, respectively. This demonstrates a doubling and then quadrupling of the capital expenditures over the past two years on a facility which is scheduled for shut down after four years. Of greater concern is the planned capital expenditure on

Holyrood in the next four years as it approaches and reaches its date of substantial shut-down.

2014 Capital Plan (Holyrood), Appendix A, page A7, in$000:

2014	2015	2016	2017	2018
12,157	7352	15,163	5497	3500

The forecast capital expenditures for Holyrood for 2014 to 2018 represent an increased investment in capital which will be nonoperational within five years. In response to NP-NLH-7 Hydro advises that it expects to recover the 2013-2021 capital expenditure by 2020 when all aspects of Holyrood are shut down. This accelerated depreciation schedule results in significantly higher annual depreciation costs. This is in addition to the increased interest and return on equity. Thus we have a compounding negative impact on customers.

The ongoing and substantial capital investment in Holyrood must be assessed and scrutinized against the backdrop of forecast future use of Holyrood within the island Interconnected system. The future use of Holyrood by relevant years, net production and capacity factors is summarized in V-NLH-9 Table 1 and presented below for years 2013 through to 2020:

Future Production and Capacity at Holyrood

Year	Production (gWh)	CF
2013	982	24%
2014	1556	38%
2015	1845	45%
2016	2028	50%
2017	1569	38%
2018	20	0%
2019	20	0%
2020	20	0%

The forecasts for net production and capacity factor demonstrate that even on the submission from Hydro that load increases will require operational reliability from Holyrood, the capacity factor for Holyrood does not exceed 50% over the next four years and Holyrood is scheduled for stand-by mode in the fifth year of the 5-year forecast from 2014 forward. The response to V-NLH-11 confirms that Muskrat Falls will be on line in 2017. V-NLH-15 clearly shows that with one generator down at Muskrat Falls the other three generators can easily equal the output of Holyrood. Based on information provided in the RFIs one generator can be out at Muskrat Falls without any requirement for Holyrood to go from standby mode to full generation. Despite specific questions posed in V-NLH-12, 13, 14 and 16, Hydro has filed no evidence for the Board to review to confirm that the Muskrat Falls power supply is or will be unreliable for the first three years of generation, 2017-2020. The suggestion that the Muskrat Falls supply will be unreliable in the early stages was offered by Hydro as rationale for investing significant capital expenditure in Holyrood in the next several years. Without any evidence before the Board to support this proposition, the Board should scrutinize the continued capital expenditure in Holyrood given its time as a generating facility is known to be fixed.

Vale submits that in the Board's evaluation and scrutiny of specific projects related to the Holyrood generating facility consideration should be given to the reasonable likelihood that the facility will not be required for power generation between 2018 and 2020 beyond a standby mode and therefore very little weight should be given to the generating requirements for that three year period. Further, many of the specific projects related to Holyrood are two year projects commencing in 2014 which will not

be completed until mid-2015 and therefore any benefit derived or risk reduced will be realized over an operating period of two years or less. The specific projects reviewed below are discussed in this context.

INDIVIDUAL 2014 CAPITAL BUDGET PROJECTS

Vale comments below on some of the individual projects proposed in Hydro's capital budget application. Notwithstanding the following, Vale submits that its failure to comment on any specific project should not be interpreted as a validation or sanction of that project. The specific projects identified and commented upon below represent those which, from Vale's perspective, appear most problematic in this 2014 Capital Budget application:

i) Holyrood – Upgrade Excitation Systems Units 1 and 2 - $1,110,000 [2014 Capital Projects $500,000 and Over: Page C22-C23]

Hydro seeks approval for this project to replace the control section of the existing Exciters on Units 1 and 2 at Holyrood through an upgrade on one unit in 2014 and the second in 2015 during scheduled outages. This project has a significant proposed capital expenditure ($1,110,000) when the benefits from this will be significantly reduced when Holyrood is converted to synchronous condenser load in 2017 [V-NLH-10, p.2, Table 1]. Hydro suggests that upgrade or replacement is necessary as the manufacturer cannot guarantee spare parts or product support after 2015. Vale submits that in the context of the larger issue of the finite generating life of the Holyrood facility, Units 1 and 2 are only required for the winters of 2015-2016 and 2016-2017.

The existing system was installed on Unit 1 in 2000 and Unit 2 in 1999 (Report to the PUB "*Upgrade Excitation Systems, Unit 1 and 2, Holyrood, May 2013*", page 3, Section 3.1). When details from the Report to the PUB and responses to V-NLH-21 are cross-referenced, it is noted that only five of the items that are no longer supported by the manufacturer have ever been replaced by Hydro over the past 14 years. The following table summarizes information from the two documents:

Part Description	Consumption since Installation	Number in Stock	Safety Stock
Digital Arcnet	3	1	1
Control Electronics PPC322	4	1	1
Power Pack	1	1	1
Pulse Generator	1	1	1
Converter Electronics Card	6	1	1

Reviewing this, it is apparent that even though they have used more than one part on at least 3 separate items (Digital Arcnet, Control Electronics PPC322 and Converter Electronics Card), Hydro has maintained an ongoing stock level of "one", reasonably interpreted that Hydro has a low expectation of multiple failures of the same part dictating a larger inventory stock at any given time. Further, the recorded "safety stock", interpreted as the lowest level of inventory that should be maintained at any one time, is also low at one. Again, this demonstrates that Hydro has a very low expectation that several of these parts which will not be supported by the manufacturer would be required over a short period.

Vale submits that the real concern here for Hydro is the assurance of adequate spare parts for the exciter units over the two year period when Holyrood would be operating as a generating facility and the manufacturer cannot guarantee replacement part

availability. This is, in essence, a stocking and a planning issue for Hydro and should not mandate a $1,000,000 system upgrade. The reply to V-NLH-21(b) confirms that a complete set of spare parts can be purchased for $100,000 which would double Hydro's current replacement stock of supply parts. If the risk of maintaining two complete sets is deemed an unacceptable level of risk associated with maintenance of the exciter and overall excitation system until 2017, then it is submitted that an additional $100,000 (and overall expenditure of $200,000) by Hydro could allow purchase of two more control electronics and four more converter cards. Following this purchase, Hydro would have in inventory the same number of each of these parts as has been used by the company over the last 14 years. This proposed expenditure of $200,000 as opposed to the budget capital expenditure of $1,110,000 seems to carry very minimal risk of problems at a significantly reduced capital expenditure on an overall asset which has a finite life as a generating facility.

Vale submits that this project, with a budgeted capital expenditure of $1,110,000 to remedy risks which are limited in time and which could be answered by a lower cost planning option, is not reasonably justified and should not be approved by the Board.

ii) Holyrood – Install Fire Protection Upgrades - $369,100 [2014 Capital Projects $200,000 and Over but Less than $500,000: Page D76-D80]

At pages D76-D80 of its application Hydro seeks approval of this project to install various fire protection upgrades at the Holyrood facility. This project is effectively a fire prevention project recommended by Hydro's insurer, FM Global. In response to

NP-NLH-10 and NP-NLH-11 Hydro has confirmed that its' insurance premiums are not contingent on meeting these recommendations from their insurer.

There are three components to this project with an overall proposed capital expenditure of $369,100, listed in priority from a fire protection point of view (V-NLH-28(b)):

- Install Automatic Shut-off valve: $144,800
- Install Concrete Curbing: $118,700
- Apply fire proofing to the pipe supports: $105,600

This project is not scheduled for completion until 2015. With this projected time frame for completion of the upgrades, by the time the upgrade is completed there will only be two years remaining in the main generating life of the Holyrood facility. After 2017 Holyrood will be in standby mode and while there may be a quantity of fuel on site it will be vastly reduced as Units 1 and 2 are forecasted to be operated approximately 72 hours per year and Unit 3 forecasted to use fuel for 24 hours per year [V-NLH-10, Table 1]. Vale submits that the overall risk for fire protection significantly and dramatically declines with 2017.

Vale also questions the timing of Hydro's planned capital expenditure on this project in 2014 (and 2015) as the recommendations for the fire protection upgrades were originally made by the insurer, FM Global, on October 21, 2008 (V-NLH-28(c)). Vale submits that as seven years will have passed since the recommendation was first

made to the proposed installation date, this project has obviously not been a priority for Hydro over the past five years since the date of the initial recommendation. As such, it cannot reasonably pass the test of a necessary capital expenditure for the continuation of reliable service. Vale further submits that this is another example of a capital expenditure the benefits of which will be significantly diminished by 2017 when Holyrood is converted to synchronous condenser load.

Given the low priority allocated to this project, the delay in Hydro's action on this recommendation since October 2008, and the limited time over which the upgrade would be in use with the finite generating life at Holyrood, Vale submits that Hydro has failed to establish that this project is reasonably required for Hydro to meet its obligations to provide a reliable service to its customers.

iii) Holyrood – Replace DC Distribution Panels and Breakers - $174,200 [2014 Capital Projects $50,000 and Over but Less than $200,000: Page E66-E68]

This is another example of a significant capital expenditure the benefits from which will be significantly reduced by 2017. Hydro seeks approval for a project to replace the DC distribution panels and breakers on Unit 1 and the purchase of spares for the Stage 1 (Units 1 and 2) DC electrical system at Holyrood. The first paragraph and significant portion of the justification provided for this project originates in the January 1, 2013 failure of Unit 1. Hydro justified that the project is necessary to ensure the reliability of the system and make available an adequate supply of critical spares.

Through response to RFIs further information was disclosed including admission that the root cause of the January 1, 2013 failure is not known (V-NHL-27(a)) and that there is no connection between the DC distribution panels and the January 11, 2013 failure (V-NLH-27(b) and PUB-NLH-29). While one portion of the justification for the project submitted by Hydro is the January 2013 incident, the project was actually included in the 2013 five-year plan and was therefore proposed prior to this failure (PUB-NLH-27 & 29).

The second portion of the project justification lies in the age of the panels. The panels in question are 30 years old and some breakers are not available from the manufacturer to access for spares or replacement stock. Within this project, Hydro is proposing two separate DC panel and breaker projects: a 2014 project for Units 1 and 2 and a 2015 project for Unit 3. The 248 VDC panel on Unit 2 was installed in 1991 and has a 30 year anticipated service life. There is no clear or complete evidence presented to explain why this panel is being changed now versus addressing whether replacement breakers are available for this panel. Hydro's response to V-NLH-27(c) lists the types of breakers that are currently stocked, without reference to the quantity or to the breakers for which no spares are currently in inventory.

Vale submits that there is insufficient evidence before the Board upon which to determine whether this capital expenditure is prudent and reasonable or whether the

problem identified by Hydro has a lesser cost option in accessing spare breakers for inventory. Subject to the agreement of the Board on this evidentiary point, Hydro should be directed to provide a clear picture of all of the components for the three units, including a simplified single line diagram, supplemented with a table listing all components under the headings of Generation Unit, Component Description, Part Number, Number in Service, Number of Spares (Stock) and Obsolete (yes/no). Failing the disclosure of this level of information, Vale submits that there is insufficient information on this expenditure to make an informed decision on its approval at this time and its ranking from Hydro is only "29" in priority.

iv) Holyrood – Install Cold-Reheat Condensate Drains and High Pressure Heater Trip Level Unit 3 - $517,200 [2014 Capital Projects $500,000 and Over: Page C30-C31]

Hydro is seeking approval for this $517,000 project to install a condensate collection system (drain pots) on the cold–reheat piping near the steam turbine on Unit 3 as well as piping modifications for the trip level switches on the high pressure heater on the same Unit. Hydro states that this is another project being done at the recommendation of the insurer, FM Global. The scheduled installation date is 2015 [Report, "*Install Cold-reheat Condensate Drains and High Pressure Trip Modifications Unit 3, Holyrood, July 2013*", Vol. II, Tab. 13, p.9], or two years prior to the conversion of Unit 3 at Holyrood to synchronous condenser load. Similar installations were done to Units 1 and 2 in 2009 and 2010 which raises the question as to why this work would not have been completed on all three Units at that time if the risk was identified by FM Global and necessary for the provision of reliable service. In the

ranking of priority of projects, this project was ranked by Hydro as only "28" in priority.

One of the components of this project is to modify the piping so that the condensate level switches can be tested every three months as per the FM Global recommendation (Report, p.5). In response to V-NLH-25 Hydro confirms that the switches could currently be tested as frequent as every six months given the current requirements for generation from Holyrood. Hydro proposes that between now and 2017 the best time interval between tests will increase somewhat as Holyrood is required to support more system load through increased operating time until the Labrador Island Transmission Link is completed and in service. Hydro has not quantified this increase in time interval between tests. However V-NLH-9 indicates that the maximum Holyrood capacity factor after installing these modifications is 50%, thus indicating the generating station is not going to be operated much, if any, above six months a year.

In response to IC-NLH-19 Hydro confirms that there have been no known incidents to date on Unit 3 as a consequence of not having this installation completed. Hydro has provided no explanation as to why this significant capital expenditure is necessary for the last two years of operation at Holyrood when the absence of incidents involving Unit 3 to date would suggest otherwise. Given the forecast for operations at Holyrood over the next five years and the absence of any historical problems or

incidents with water damage to the steam turbine in Unit 3, Vale submits that operating Unit 3 for an extra two years, from the 2015 installation to the 2017 shut down, without this capital expenditure is both a low risk option and a prudent decision. The low risk associated with operating without this project is perhaps reflected in the priority ranking of "28" afforded the project by Hydro. Vale submits that the significant capital expenditure of $517,200 on this project is not justified and should be disallowed.

SUBMISSION ON COSTS

Vale respectfully requests that the Board award Vale costs on the within Application on the same basis as any award of costs made in favor of the Consumer Advocate and/or the Industrial Group. An award of costs in favor of Vale is justified based on the fact that:

i) As noted in the Introduction, when Vale's processing plant in Long Harbour begins production, Vale will be the single largest industrial customer of Hydro. As discussed above in the submissions surrounding overall capital expenditure, an increase in capital expenditure, barring other circumstances, increases the rate base of Hydro and consequently the revenue requirements for Hydro into the future. As also noted above, the current capital expenditure application for 2014 and the forecasted budgets for years 2015 through 2018 will impact revenue requirements, and hence customer rates, well past the date of first production at Long

Harbour. Vale has a significant interest in the participating in an examination of Hydro capital budget process and in the within Application; and

ii) With respect, the Consumer Advocate cannot be expected to represent the varied interests of all of Hydro's customers. Similarly, within the larger group of "industrial customers" there may, at times, arise significant differences of interest, perspective and position with regard to matters included in Hydro's various applications, and as recently apparent in the RSP application. Given the issues raised in the within Capital Budget Application, Vale's submissions on the within Application were distinct from the submissions of the Industrial Customer Group and Consumer Advocate focusing commentary and scrutiny on several projects not addressed by either of the Industrial Customer Group or the Consumer Advocate.

ALL OF WHICH IS RESPECTFULLY SUBMITTED ON BEHALF OF VALE NEWFOUNDLAND & LABRADOR LIMITED.

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

COX & PALMER

Per: _____
Leanne M. O'Leary

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