

December 3, 2014

The Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, Newfoundland & Labrador
A1A 5B2

Attention: Ms. Cheryl Blundon
Director Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro (Hydro) – The Board's Investigation and Hearing into Supply Issues and Power Outages on the Island Interconnected System – Generation Availability – Capital Program Status November Report

Further to your letter of November 24 2014 regarding the above referenced report, following is Hydro's responses to the Board's questions.

- Q1. List the major Transmission and Rural Operations projects that are being deferred from 2014 to 2015 and explain why each is being deferred.
- A1. In the report "Hydro 2014 Capital Program Status" dated November 18, 2014, two Transmission and Rural Operations projects were identified as projects with substantial completion delayed to 2015.

Upgrade Gas Turbine Controls, Happy Valley

Factory acceptance and delivery to site of the new equipment will be completed in 2014. Delivery is later than originally planned due to extended negotiations of terms and conditions with the vendor prior to contract award. In August 2014, Hydro assessed the risk of commencing the construction activity late in the year and concluded that the least risk course of action, from a winter reliability perspective, was to defer the construction to the Spring of 2015. The gas turbine is required for meeting winter load. Replacing the existing controls systems late in the year would not allow time to troubleshoot any unforeseen technical issues with the new control system.

Additions to Accommodate Load Growth – Isolated Generating Stations: Hopedale, L'Anse au Loup, Nain

Early in 2014, Hydro completed detailed planning for the construction phase of this project. Schedule constraints necessitated that a portion of the scope be deferred to 2015. To ensure winter reliability and ability to meet winter capacity requirements, the critical project scope

was identified and was scheduled for completion in 2014. The remaining project scope, including associated protection and control upgrades and a fire suppression system, is deferred to 2015.

Q2. Explain the reasons why the actual cost is less than the estimate for each project that the total cost is forecast to be less than the estimated project cost.

A2. In Hydro's report "Capital Program Status" dated November 18, 2014, it was noted that a number of projects have forecast final costs less than the approved budget for a total forecast savings of approximately \$2,000,000. The following table summarizes the forecast savings and reasons for same:

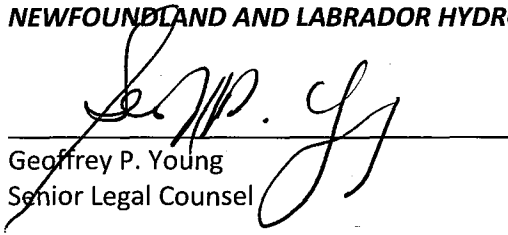
Project	TOTAL PROJECT COSTS (\$000)			YEAR-TO-DATE PROJECT COSTS (\$000)			Variance Explanation
	PUB Approved Budget Estimate (1)	Forecast Final Cost (2)	Variance (1)-(2)	Planned Cost to End of October 2014 (3)	Actual Cost to End of October 2014 (4)	Variance (3)-(4)	
Replace Compressed Air Systems, Sunnyside and Stony Brook	2,408.9	1,710.7	698.2	1,990.5	552.4	1,438.1	The project is substantially complete and the contingency of \$194,300 will not be expended. In addition, the portion of the project scope involving replacement of compressed air valve panels and air dryers was removed. This scope reduction was based on an initiative to accelerate the replacement of air blast circuit breakers (ABCBs). The compressed air systems are required for ABCB operation. In 2014, Hydro revised the long term asset plan to advance the replacement of these breakers. The earlier ABCBs replacements result in reduced required service lives of the compressed air systems. Hydro removed from the project scope the compressed air valve panels and air dryers since these components are expected to be reliable for the remaining required service life.

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Upgrade Distribution Systems, Charlottetown, Roddickton and St. Lewis	2,735.7	2,493.9	241.9	2,712.5	2,093.0	619.5	The project is substantially complete and the contingency of \$186,800 will not be expended.
Inspect Fuel Storage Tanks, Various Sites	495.0	395.0	100.0	495.0	327.0	168.0	The project is substantially complete and the contingency of \$77,800 will not be expended. In addition, the engineering cost was less than the budget estimate.
Rewind Stator Unit 3, Bay d'Espoir	4,343.9	3,943.9	400.0	3,530.9	2,769.5	761.4	The project is substantially complete and \$400,000 of the \$680,400 contingency will not be expended.
Upgrade North Cut-off Dam Access Road	631.7	531.7	100.0	631.7	259.5	372.2	The project is substantially complete and the contingency of \$100,300 will not be expended.
Surge Tank 3 Refurbishment	2,265.0	2,065.0	200.0	1,876.8	1,338.9	537.9	The project is substantially complete and \$200,000 of the \$358,700 contingency will not be expended. In addition, the contract cost was less than the budget estimate.
Upgrade Generator Bearing	480.9	300.0	180.9	480.9	287.8	193.1	The project is substantially complete and the contingency of \$74,700 will not be expended. In addition, the contract cost was less than the budget estimate.
TOTALS	13,361.1	11,440.2	1,921.0	11,718.3	7,628.1	4,090.4	

Please do not hesitate to call if you have any questions.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Geoffrey P. Young
Senior Legal Counsel

GPY/jc

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
ecc: Roberta Frampton Benefiel – Grand Riverkeeper Labrador

Thomas Johnson – Consumer Advocate
Danny Dumaresque