

March 2, 2015

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 of Corporate Services & Board Secretary**

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro - the Board's Investigation and Hearing into Supply Issues and Power Outages on the Island Interconnected System – Hydro's Submission in Relation to Recommendation 10.3 in the Phase I Report by Liberty Consulting Regarding Work Assignments in the Project Execution and Technical Services (PETS) Division**

In its Reply Submission presented to the Board on February 5, 2015, Hydro indicated its agreement with the following recommendation by Liberty Consulting (Liberty) in their Phase I Report (the Report) dated December 17, 2014:

- 10.3 Submit to the Board a comparison of Project Execution and Technical Services work assignments resulting from the work planning process with home base assignments.

Hydro committed to present this analysis to the Board by March 1, 2015.

#### Background

On pages 157-59 of their Report, Liberty discussed how the PETS group provides project management, engineering and other technical services to Hydro and other Nalcor business units on a shared services basis. During the course of their Phase I analysis, Liberty reviewed data supplied by Hydro regarding the staffing complement of PETS; the home base location of PETS staff (i.e., as between Hydro and Nalcor); and how the work time of PETS staff has been allocated between Hydro and other business units. This information included data and information provided to Liberty in response to PUB-NLH-426 (revision 1), PUB-NLH-463, and PUB-NLH-464.

As they explain in Section 10.3 of their Report (page 157), Liberty's purpose was to determine whether there was any reason for concern that the provision of common services has disadvantaged Hydro in terms of securing the access needed to ensure the proper installation and operation of facilities as required to provide reliable service.

In their Report Liberty noted that having a common organization to provide the variety of skills typically required from an engineering and project management group lowers the total number of resources needed, with beneficial impacts for Hydro and other Nalcor business units as a result. Liberty stated that their review supported an observation that the PETS group uses a common resource as one would hope, i.e., using a pool of experts having a variety of needed capabilities in a planned manner to optimize performance. Liberty also found that the PETS group has made reasonable assignments of its resources to Hydro and other Nalcor home bases since the transfer of some employees to Nalcor and the creation of new PETS positions in 2011.

Liberty did feel that some elements of the PETS group's use of shared resources have not been as transparent as they should be. In the context of providing more transparency to Hydro's shared services practices, Liberty essentially went on to recommend that Hydro add to the information it has previously provided to verify that home base assignments do conform to actual work assignments.

Liberty acknowledged that some reliability initiatives and other actions flowing from Hydro's internal review and their Phase I review will have comprised a major source of work that will not repeat over the longer term. Accordingly, Liberty suggested that Hydro should include an identification of PETS work assignments that are associated with such non-recurring work, and this has been done as discussed below.

#### Analysis of PETS Home Base Assignments and Actual Work Assignments

Hydro's response to PUB-NLH-464 included a detailed position-by-position summary of the allocation of PETS personnel between Hydro and Nalcor Energy over the period 2010 to 2014, on a Full Time Equivalent (FTE) basis. Table 1 below expands on this previous information and provides a basis for the following observations (2014 figures are actuals):

- a) PETS resourcing in support of Hydro has grown since 2011 from 79.9 FTEs to 94.0 FTEs. In this analysis, charges by Nalcor PETS personnel into Hydro for work related to Exploits Generation were excluded on the basis that Exploits operations are not regulated.
- b) There was an increase in Nalcor FTEs charged into Hydro in 2014 compared with 2013 (5.8). However, this increase was fully offset by the Nalcor FTEs charged to one-time supplemental and outage related projects in Hydro in that year (see Table 2 below for a listing of these projects). Consistent with this is the fact that net charges in and out of Hydro after one-time projects have been excluded was low in 2014 and in line with both 2013 and 2012. Both outcomes are consistent with the priority focus put on this work in 2014 and they confirm that much of the additional resourcing required to complete this incremental work came from the Nalcor home based PETS group.
- c) Similarly, there was an increase in the number of Nalcor PETS staff who charged more than 50% of their time into Hydro in 2014 compared with 2013. However, this increase coincides with the increase in FTEs charged to one-time projects as discussed in (b) above. Hydro fully expects that the number of Nalcor staff charging more than 50% into Hydro will return to levels comparable with 2012 and 2013 once the PETS workload normalizes with the reduction in one-time "break-in" work associated with the 2014 outage events.

Hydro's allocation of PETS home bases has evolved and improved since 2011, and the Company believes that this analysis reinforces Liberty's conclusion that the home base assignments for PETS staff have been allocated reasonably in relation to the actual assignment of work for both Hydro and Nalcor PETS employees.

<b>TABLE 1 - Comparison of PETS Home Base and Work Assignments</b>						
		<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>A</b>	Home Base FTEs in NLH	110.0	92.3	79.5	79.2	86.4
<b>B</b>	FTEs Charged Out	-15.0	-17.5	-7.8	-8.9	-8.2
<b>C</b>	FTEs Charged in by Nalcor	0.0	5.1	5.8	10.1	18.5
<b>D</b>	Less : FTEs Charged to Exploits Generation	0.0	0.0	0.0	-0.1	-2.7
<b>E</b>	FTEs Charged Into Regulated NLH by Nalcor (C+D)	0.0	5.1	5.8	10.0	15.8
<b>F</b>	<b>Net FTE Complement, Regulated NLH (A+B+E)</b>	<b>95.0</b>	<b>79.9</b>	<b>77.4</b>	<b>80.3</b>	<b>94.0</b>
<b>G</b>	Net Charges In and Out, Regulated NLH (B+E)	-15.0	-12.4	-2.1	1.1	7.6
<b>H</b>	Nalcor FTEs Charged to Supplemental/Outage Projects	0.0	0.1	0.2	0.5	6.0
<b>I</b>	<b>Net Charges In and Out Normalized for One-Time Projects (G-H)</b>	<b>-15.0</b>	<b>-12.6</b>	<b>-2.2</b>	<b>0.6</b>	<b>1.6</b>
<b>J</b>	# of Nalcor PETS positions charging in >50% of their time	0	4	7	11	18

<b>TABLE 2 - One-Time Projects in NLH, 2014</b>	
<b>Project</b>	<b>Nalcor FTEs Charged In</b>
Sunnyside Terminal Station (T1/T3,T8)	2.83
New Combustoin Turbine, HTGS	1.90
Proposed New Lab West Transmission Line	0.39
TL 201/203 Insulator Replacements	0.26
Black Start, Holyrood	0.15
Transformer Exciters, Bay d'Espoir	0.06
Western Avalon (T5)	0.04
Other Projects	0.32
<b>Total FTEs</b>	<b>5.95</b>

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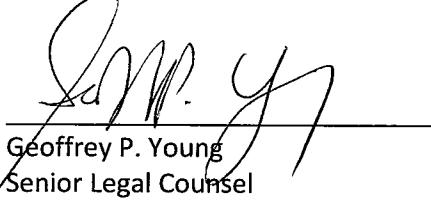
Allowing for the number, scope and diversity of projects managed by the PETS group on an overall basis each year, and the fact that many of Nalcor's engineering discipline leads and senior specialists are located in Nalcor, Hydro expects that a certain percentage of its Nalcor PETS group will charge into Hydro each year at high levels. It should be remembered, however, that the staff who do so, and the time charges of all PETS employees, will vary from one year to the next in any event depending on the Company's project portfolio.

Hydro will continue to review PETS work assignments each year and adjust home base assignments as required to more appropriately reflect the actual utilization of staff time. In the meantime, Hydro's time charge system ensures that the time worked by PETS personnel in both Hydro and Nalcor is allocated to the appropriate business unit. Both processes will continue to ensure that Hydro is adequately resourced from an engineering, project management and technical services standpoint, and that the costs it incurs for these services are accurately allocated.

We trust the foregoing is satisfactory. If you have any questions or comments, please contact the undersigned.

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  
Sheryl Nisenbaum – Praxair Canada Inc.  
ecc: Roberta Frampton Benefiel – Grand Riverkeeper Labrador

Thomas Johnson – Consumer Advocate  
Thomas O' Reilly – Cox & Palmer  
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