

May 28, 2018

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

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

Dear Ms. Blundon:

Re: An Application by Newfoundland and Labrador Hydro pursuant to Subsection 41 (3) of the Act for approval of a capital expenditure to supplement the Allowance for Unforeseen Items for the construction and purchase of certain improvements and additions to its property.

Please find enclosed one (1) original and ten (10) copies of the above-noted Application, plus supporting affidavit and draft order.

Hydro is presently executing an unforeseen and urgent capital project, which will exceed the \$1,000,000 Allowance for Unforeseen Items, as approved in P.U. 43(2017). The enclosed Application seeks the Board's approval of the restoration of the Allowance for Unforeseen Items amount by restoring it to \$1,000,000, which is believed to be an appropriate and prudent amount. The unforeseen project that is ongoing is enclosed as Schedule 1 to the Application (Allowance for Unforeseen Notification – Bay d'Espoir Penstock 3). The refurbishment of Bay d'Espoir Penstock 3 has a current budget estimate of \$6,000,000. The Application is filed in accordance with the Capital Budget Application Guidelines issued in October 2007.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Michael S. Ladha
Legal Counsel & Assistance Corporate Secretary
MSL/skc

Encl.

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey
ecc: Dean Porter – Poole Althouse
Larry Bartlett – Teck Resources Ltd.

Dennis Browne, Q.C. – Browne Fitzgerald Morgan & Avis
Sheryl Nisenbaum – Praxair Canada Inc.
Denis J. Fleming – Cox & Palmer

IN THE MATTER OF the *Electrical Power Control Act*, RSNL 1994, Chapter E-5.1 (the *EPCA*) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the *Act*), and regulations thereunder;

AND IN THE MATTER OF an Application by Newfoundland and Labrador Hydro pursuant to Subsection 41(3) of the *Act*, for the approval of a capital expenditure to supplement the Allowance for Unforeseen Items for the construction and purchase of certain Improvements and additions to its property.

TO: The Board of Commissioners of Public Utilities (the Board)

THE APPLICATION OF NEWFOUNDLAND AND LABRADOR HYDRO (Hydro) STATES THAT:

1. Hydro is a corporation continued and existing under the *Hydro Corporation Act, 2007*, is a public utility within the meaning of the *Act*, and is subject to the provisions of the *Electrical Power Control Act, 1994*.
2. Section 41 (3) of the *Act* states that a public utility shall not proceed with the construction, purchase or lease of improvements or additions to its property where:
 - a) the cost of the construction or purchase is in excess of \$50,000; or
 - b) the cost of the lease is in excess of \$5,000 in a year of the lease, without the prior approval of the Board.
3. Hydro has an unforeseen, urgent capital project underway and has depleted the approved 2018 allowance of \$1,000,000. The unforeseen capital project is the Bay

d'Espoir Penstock 3 Refurbishment, with a current budget estimate of \$6,000,000.

Notice of this unforeseen project was provided to the Board by the Applicant on May 18, 2018. Further details respecting this unforeseen project are enclosed as Schedule 1 to this Application.

The Application

4. The Capital Budget Guidelines issued by the Board in October 2007 permit a utility to apply for approval of an additional amount in the Allowance for Unforeseen Items Account provided the utility shows that usage of the account has been consistent with the Guidelines.

5. Hydro submits that it is prudent to maintain an appropriate Unforeseen Allowance of \$1,000,000 to permit Hydro to address unforeseen events that may arise during the remainder of 2018. Hydro recognizes that the presently remaining allowance will not provide for sufficient funds to address these unforeseen events, and requests that the Board approve a supplementary allowance of \$1,000,000 for that purpose.

6. Therefore, Hydro makes Application that the Board make an Order approving pursuant to Section 41 (3) of the Act, the additional amount of \$1,000,000 to be added to the Allowance for Unforeseen Items Account.

DATED at St. John's, in the Province of Newfoundland and Labrador, this 28th day of May 2018.



Michael S. Ladha
Counsel for the Applicant
Newfoundland and Labrador Hydro
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May 18, 2018

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

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

Dear Ms. Blundon:

Re: Bay d'Espoir Penstock 3
Allowance for Unforeseen Items Notification

Following the 2016/2017 refurbishments of Bay d'Espoir Penstocks 1 and 2¹ and analysis by Hydro's penstock consultant, Hydro determined that a Level 2 condition assessment was required for Bay d'Espoir Penstocks 1, 2, and 3. A Supplemental Capital Application for these Level 2 condition assessments is under development. As part of the development of the Supplemental Application, a reduced scope maintenance inspection on Penstock 3 was scheduled for May 2018.

On May 9, 2018, an external consultant commenced the reduced scope inspection of the longitudinal weld seams on Penstock 3. This inspection identified cracks in the existing welding of the penstock. Hydro originally initiated this work under the Hydraulic In-Service Failures project; however, as the inspection continued, it was determined on May 15, 2018 that due to the significant number cracks in the welds, the scope of refurbishment requires the use of the Allowance for Unforeseen Items Account. While the assessment of the extent of weld cracking is currently ongoing, the most recent estimate shows that a minimum of 700 metres of weld requires refurbishment.

It is anticipated that this Allowance for Unforeseen Items project will take approximately six to eight weeks to complete and is estimated to cost approximately \$6,000,000. As the inspection is still in progress, Hydro will inform the Board should anything materially change. Bay d'Espoir Units 5 and 6 (153 MW in total) will remain unavailable until Hydro completes the refurbishment work.

Components of the Level 2 condition assessment for Penstock 3 will be completed as Penstock 3 is being refurbished (i.e., non-destructive testing that would have occurred as part of the condition assessment). Therefore, the scope of work for Penstock 3 in the Supplemental Capital Application under development will be reduced in comparison to Penstocks 1 and 2. Hydro anticipates filing the

¹ May 2016 repairs on Penstock 1, Fall 2016 refurbishment of welds in Penstock 1, Spring 2017 refurbishment of welds in Penstock 2, Fall 2017 refurbishment and upgrade of Penstock 1.

Ms. C Blundon
Public Utilities Board

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Supplemental Capital Application for the Level 2 condition assessment in the coming weeks. If the supplemental project is approved, Hydro will utilize the findings from the condition assessments to inform future actions, as required, for reliable operation of the penstocks.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Michael S. Ladha
Legal Counsel and Assistant Corporate Secretary
MSL/skc

IN THE MATTER OF the *Electrical Power Control Act*, RSNL 1994, Chapter E-5.1 (the *EPCA*) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the *Act*), and regulations thereunder;

AND IN THE MATTER OF an Application by Newfoundland and Labrador Hydro pursuant to Subsection 41(3) of the *Act*, for the approval of a capital expenditure to supplement the Allowance for Unforeseen Items for the construction and purchase of certain Improvements and additions to its property.

AFFIDAVIT

I, Kyle B. Tucker, Professional Engineer, of St. John's in the Province of Newfoundland and Labrador, make oath and say as follows:

1. I am Manager, Regulatory Engineering of Newfoundland and Labrador Hydro, the Applicant named in the attached Application.
2. I have read and understand the foregoing Application.
3. I have personal knowledge of the facts contained therein, except where otherwise indicated, and they are true to the best of my knowledge, information and belief.

SWORN at St. John's in the)
Province of Newfoundland and)
Labrador)
this 28th day of May 2018,)
before me:)


Barrister – Newfoundland and Labrador


Kyle B. Tucker

(DRAFT ORDER)
NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AN ORDER OF THE BOARD

NO. P.U. __ (2018)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act*, RSNL 1994, Chapter E-5.1 (the
3 *EPCA*) and the *Public Utilities Act*, RSNL 1990,
4 Chapter P-47 (the *Act*), and regulations thereunder;

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6 **AND IN THE MATTER OF** an Application
7 by Newfoundland and Labrador Hydro
8 pursuant to Subsection 41(3) of the *Act*, for
9 the approval of a capital expenditure to
10 supplement the Allowance for Unforeseen
11 Items for the construction and purchase of certain
12 Improvements and additions to its property.

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14 **WHEREAS** the Applicant is a corporation continued and existing under the *Hydro Corporation*
15 *Act, 2007*, is a public utility within the meaning of the Act and is subject to the provisions of the
16 *Electrical Power Control Act, 1994*; and

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18 **WHEREAS** in Order No. P.U. 43(2017) the Board approved Hydro's 2018 Capital Budget in
19 the amount of \$170,868,300; and

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21 **WHEREAS** Section 41(3) of the Act requires that a public utility not proceed with the
22 construction, purchase or lease of improvements or additions to its property where:

- 23 a) the cost of construction or purchase is in excess of \$50,000; or
24 b) the cost of the lease is in excess of \$5,000 in a year of the lease,

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26 without prior approval of the Board; and

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28 **WHEREAS** Hydro has an unforeseen, urgent capital project underway, Bay d'Espoir Penstock 3
29 Refurbishment, which has depleted the approved 2018 allowance of \$1,000,000; and

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31 **WHEREAS** Hydro submits that it is prudent to maintain sufficient amounts in the Allowance
32 for Unforeseen Items to permit Hydro to address unforeseen events that may arise during the
33 remainder of 2018, and requests that the Board approve a supplementary amount of \$1 million
34 for that purpose; and

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36 **WHEREAS** the Capital Budget Guidelines (the "Guidelines") issued by the Board in October
37 2007 permit a utility to apply for approval of a supplementary amount provided the utility shows
38 that usage of the account has been consistent with the Guidelines; and

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WHEREAS the Board is satisfied that the supplementary amount of \$1 million for the Allowance for Unforeseen Items should be approved.

IT IS THEREFORE ORDERED THAT:

1. The addition of a supplementary amount of \$1 million to the 2018 Allowance for Unforeseen Items is approved.
2. Hydro shall pay all expenses of the Board arising from this Application.

DATED at St. John's, Newfoundland and Labrador, this ____ day of _____, 2018.

