

April 17, 2013

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Via Electronic Mail and 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, Director of Corporate Services
and Board Secretary**

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro - Application for approval of the Restoration
of Unit 1 Turbine and Generator at Holyrood (“Unit 1 Restoration Application”)**

These are the comments of the Island Industrial Customers (Corner Brook Pulp & Paper Limited, North Atlantic Refining Limited, and Teck Resources Limited) in respect of the Unit 1 Restoration Application.

The Island Industrial Customers accept that the restoration of Unit 1 is necessary, and ought not to be delayed. In the circumstances, the Island Industrial Customers have little option but to accept Hydro's assessment of the work required and of the estimated costs.

However, in respect of the issues and unanswered questions raised by this Application, the Island Industrial Customers are concerned about whether Hydro's operational practices, and past major inspections and overhauls (the most recent of which, in respect to Unit 1, was in 2012 and was financed through capital expenditure by Hydro), meet the presumption of prudence by Hydro as a public utility.

The issues and unanswered questions raised by this Application, and by Hydro's responses to Requests for Information, include the following:

1. Hydro, in its 2012 Capital Budget Application, applied for and received Board approval for (without opposition by the Intervenors) a \$4.193 million Unit 1 Turbine Generator Major Overhaul. As described in the July 2011 report filed by Hydro in support of that project, the major overhaul was to include “internal inspections of all systems including auxiliary equipment” (page 5 of the report). In Section 4.9 of the report, Hydro stated that “A major overhaul is a requirement to maintain the T/G [Turbine/Generator] and auxiliary equipment in optimal operating condition in order for Hydro to provide safe, least-cost, reliable electrical service to its customers.” In the “Conclusion” section of this report, Hydro stated that the project was justified, in part, because “It will also identify any unusual findings (internally or externally) that if not corrected or controlled could lead to premature failure of the equipment and a significant unplanned unit outage.”

2. Alstom was engaged by Hydro to perform work in relation to the major overhaul of Unit 1 approved in the 2012 Capital Budget process. Hydro, by its response to CA-NLH-5, has produced the excerpts of the results of the major overhaul inspection program, contained in an Alstom report, relating to the DC pump. The reference to the inspection performed in relation to the DC pump is limited to one line "The DC pump was found to be in good condition and no repairs were required." (Hydro states that Alstom's reference to the DC motor having been refurbished was made in error).
3. However, this "major overhaul inspection" failed to identify that the DC pump did not deliver the required flow and pressure to the bearings (see response to IC-NLH-3 (ii)).
4. Moreover, there was evidence, gathered by the Holyrood plant's Distributed Control System (DCS) data storage system, that showed that a lube oil capacity issue had existed at least since November 26, 2009 (see response to IC-NLH-7 (i)). This data was apparently reviewed only after the DC pump failed on January 11, 2013. Should this data have been reviewed periodically, as a prudent operational practice, or at the very least as part of a major overhaul inspection intended "to identify any unusual findings (internally or externally) that if not corrected or controlled could lead to premature failure of the equipment and a significant unplanned unit outage"? This question answers itself.
5. The very limited information about what was inspected by Alstom in the 2012 major overhaul in relation to the DC pump, the evidence pointing to an issue in relation to the DC pump which was available since at least November 26, 2009, and the DC pump's subsequent failure less than a year later, raises unavoidable questions about whether the 2012 inspection and overhaul of the DC pump was conducted in a prudent and competent manner.
6. The failure of the DC pump was not caused or contributed to by the January 11, 2013 storm (see response to IC-NLH-12 (i)). It failed when called into action to deal with the very contingency for which it had been designed and installed. That contingency was neither unforeseen nor unprecedented (see response to IC-NLH-12(iii)).
7. Apparently inconsistent and/or evidently incomplete responses to the Requests for Information are cause for further concern:
 - a. In response to CA-NLH-2, Hydro identifies the failure experienced with the DC pump as "an operational speed and corresponding horsepower reduction with the DC motor driving the pump"; in response to IC-NLH-1(i), this is described more plainly as "the DC pump motor was not running at the required speed". But at page 62 of the Alstom report submitted as Appendix C1 to the Application, Alstom states that "From a mechanical standpoint, there were no findings that would have prevented the pump from operating effectively". How are these comments to be reconciled?
 - b. By IC-NLH-1, Hydro was plainly asked "Who is preparing the final root cause analysis report?" In response, Hydro advises that the analysis is being prepared by Hydro staff, and is to be reviewed by unidentified external consultants. Hydro surely knows at this point who these external consultants will be. Is there assurance of sufficient transparency and objectivity in this analysis to support a report to the Board regarding an event which has caused damage to a critical Hydro facility which is estimated to cost almost \$13 million dollars to restore,

which over \$4 million was spent in a major overhaul less than a year previous to prevent, and which jeopardized reliability of service to Hydro's customers for several months when the Holyrood facility could be expected to be needed to meet peak winter demand?

- c. With respect to transparency, Hydro's response to whether it will be objecting to or opposing the disclosure of the final root cause analysis report to the intervenors, including the Island Industrial Customers (IC-NLH-1 (v)) is hardly comforting: "At this time, Hydro has not determined whether the report will be widely distributed." A similar question posed by Newfoundland Power (NP-NLH-3) – "Will a written report on the sequence of events from January 11, 2013 be provided to the Board and interested parties?" meets with a response, which, particularly in light of the response to IC-NLH-1(v), lacks clarity: "This report is being completed, and is expected to be available by May 31, 2013."

The Island Industrial Customers submit that Hydro cannot reasonably expect that the Board should order, based on present information and in the circumstances outlined above, recovery of the costs of the Unit 1 Restoration from Hydro's rate payers. The Island Industrial Customers respectfully submit that the appropriate regulatory response in these circumstances is to defer any recovery of Hydro's costs for the Unit 1 Restoration until the final root cause analysis report is filed with the Board and disclosed to the interested parties, including Hydro's rate payers, and only after there has been a reasonable opportunity to address any questions and issues arising from the final root cause analysis report (or which are not addressed by that report) by way of due process before the Board.

Yours truly,

Stewart McKelvey



Paul L. Coxworthy

PLC/kmcd

- c. Mr. Geoffrey P. Young, Senior Legal Counsel, Newfoundland and Labrador Hydro
Mr. Thomas J. Johnson, Consumer Advocate
Mr. Gerard Hayes, Newfoundland Power
Mr. Dean A. Porter, Poole Althouse