

April 19, 2013

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's Application for approval of the Restoration of Unit 1 Turbine and Generator at the Holyrood Thermal Generating Station

The following are Hydro's comments and submissions in response to the points raised by the Consumer Advocate (CA) and the Industrial Customers (ICs) in their submissions of April 17, 2013.

All intervenors have accepted that the refurbishment of Unit 1 should proceed and Hydro wishes to express its gratitude for the parties' and the Board's willingness and promptness in dealing with this matter with a compressed schedule.

The IC's and CA have proposed that the issue of inclusion in rate base be deferred for the consideration of the parties and the Board until such time that the root cause analysis has been completed. Hydro's investigation process has not been finalized and Hydro does not object to deferring a determination of the rate base issue until that is complete. The need to place the generating unit back in service is paramount and it is in the public interest that the project be carried out with dispatch. Hydro fully expects to have filed the root cause analysis report with the Board prior to requesting the project be included in rate base. However, it should be noted that Hydro sees no rationale for the eventual exclusion of the project from its rate base.

Hydro feels it appropriate to clarify, at this time, what appear to be misunderstandings of the facts, as expressed by the parties, rather than await Hydro's future application for the approval of its rate base, including this project.

The Consumer Advocate states that Hydro's test procedure for the DC pump "failed to identify the particular failure experienced". The procedure did not fail to identify something; the manufacturer's guidelines provided no testing requirements that would or could have identified the particular failure experienced. Hydro's highly experienced staff had no indication, nor did the manufacturer's guidelines suggest, that more expansive testing should be performed.

Hydro wishes to address the following matters raised by the Industrial Customers:

Paragraph 4, concerning data in Hydro's Distributed Control System (DCS)

As the Board and intervenors are aware, a thermal generating station is extremely complicated, comprising a very large number of chemical, mechanical, and electrical systems and processes. There are many thousands of pieces of data recorded in Hydro's DCS related to the complex systems used at the Holyrood Thermal Generating Station. The DCS captures data on a very large number and broad range of these systems and processes, far too many to be all reviewed and interrogated on an on-going basis—doing so would be, quite obviously, extremely onerous and would be cost prohibitive. Some of this data is reviewed and considered for its prognostic value in that it can help predict failures or problems before they occur. Others can be reviewed after an event occurs to assist in understanding the nature and cause of a failure but time and resources do not permit the review of all data, on all systems, on an on-going basis. Without a reason to monitor a specific data point, implications of the recorded data are not known at the time of the recording of the data.

As was clearly indicated in Hydro's responses to the requests for information, the data in question – the lube capacity – was not part of the manufacturer's recommended testing and monitoring, and Hydro had no information to indicate that it should be monitored until the failure on January 11, 2013. That the data existed, amongst all of the other data being recorded, only led to Hydro being able to determine that the situation with the pump existed as far back as November, 2009. Should the Industrial Customers be requesting that all of the data points recorded at Holyrood be reviewed periodically, Hydro suggests that it would require significant investment in information systems to mine all of the data, and significant increase in staff at Holyrood to interpret all of the results.

Paragraph 5, 2012 Unit 1 Overhaul

The overhaul of the Unit 1 Turbine Generator addressed the condition of the Turbine Generator and auxiliary systems at that time. The DC pump was inspected, rather than overhauled, during the execution of this project. An overhaul of the DC pump would be a separate project. However, neither previous overhauls nor the inspection in 2012 revealed the issue. It should be noted that an overhaul, however extensive, cannot guarantee that any unforeseen or previously unknown problem will not occur.

Paragraph 7 a, no mechanical issue with the DC pump

The failure experienced with the DC pump was related to operational speed and corresponding horsepower reduction; the source of the problem was an electrical issue with the pump's motor, not a mechanical problem in the pump itself.

Paragraph 7 b, preparation of the root cause analysis report

Hydro has indicated that Hydro staff are preparing the root cause analysis report. Hydro did not consider it necessary to indicate in its response to IC-NLH-1 the name of the external consultants, as the TapRoot Analysis Executive Summary, attached to the original report as Appendix A, clearly showed the consultant's name as System Improvements, Inc.

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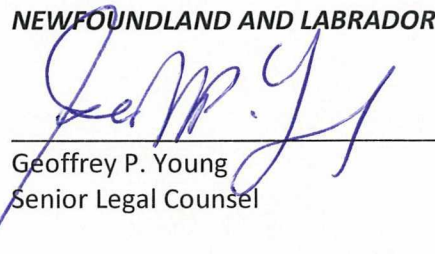
Paragraph 7 c, distribution of root cause analysis report

Hydro will, of course, make available to the Board its root cause analysis report and any other documentation the Board considers necessary. Whether that report will be widely distributed will depend, in part, upon the technical complexity of that report. Hydro may wish to provide a summary or other level of documentation for wider distribution, in an effort to promote clarity rather than obscure transparency.

We trust the foregoing is satisfactory.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Geoffrey P. Young
Senior Legal Counsel

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales

Thomas Johnson – Consumer Advocate
Dean Porter – Poole Althouse