

May 2, 2014

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

Attention: G. Cheryl Blundon, Director of Corporate Services and Board Secretary

Ladies and Gentlemen:

RE: Newfoundland and Labrador Hydro's Application for Approval of the Procurement and Installation of a Combustion Turbine at Holyrood

On April 10, 2014 Hydro filed an Application with the Board for an Order approving a capital expenditure of \$119 million for the purchase and installation of a 100 MW (nominal) combustion turbine to be installed at the Holyrood TGS site. In a letter dated April 29, 2014 the Board notes that owing to the late filing of the Application the only option for regulatory review may be to grant approval for Hydro to proceed with the project as proposed and subsequently establish a separate process to allow the parties the full opportunity to review the issues of cost and cost recovery. The Board requests the Parties to submit comments relating to this approach by Friday, May 2, 2014.

In the Consumer Advocate's submission, Applications such as this must satisfy three conditions, as follows:

1. Has the system need for the proposed project been established?
2. Does the proposed project satisfy the system need?
3. Does the procurement process result in optimum value for consumers?

The need for additional capacity on the Island Interconnected System was established during this past winter's outage events, but Hydro issued documentation from as far back as 2010 identifying the need for additional capacity by the winter of 2015/16. In the Application, Hydro has justified an earlier need by this coming winter based on a more robust assessment of the planning criteria (relating to load forecast and equipment outage rates) consistent with recommendations by Ventyx (Section 5, page 5 of Application). Hydro has also justified a need beyond the commissioning of Muskrat Falls to satisfy various transmission and local area supply contingencies on the Avalon Peninsula (Section 5, page 30 of Application). Liberty Consulting Group identifies securing new generation as the first priority in its interim report to the Board on the Investigation and Hearing into Supply Issues and Power Outages on the Island Interconnected System report (Recommendation 15, page 83).

A combustion turbine has been established as the preferred option to satisfy this need since Hydro's 2010 Generation Planning Issues report was issued (page 31). The combustion turbine alternative has also been

supported by sources outside Hydro including Ventyx (Appendix E, page 20 of 26 of Application) and the Liberty Consulting Group (page 36 of its Interim Report to the Board). The Consumer Advocate promotes development of physical projects like this in combination with demand management initiatives, and as the Application states, demand management initiatives including interruptible power contracts are being pursued coincidentally (pages 17 and 30 of Application). As stated in the Liberty interim report (page 37 and Recommendations 15 and 16), both supply and demand management initiatives are needed to satisfy the system need for capacity.

The issue that remains to be resolved relates to the competitiveness of the tendering process to determine if it has been conducted in a manner that optimizes value to consumers. In this regard, the Consumer Advocate supports the Board's proposed approach to grant Hydro approval to proceed with the project as proposed and subsequently establish a separate process to allow the parties the full opportunity to review the issues of cost and cost recovery.

Please contact the undersigned if you have any questions.

Yours very truly,

O'DEA, EARLE



THOMAS JOHNSON

TJ/cel

cc: Newfoundland and Labrador Hydro
Attention: Geoffrey P. Young

Newfoundland Power
Attention: Gerard Hayes

Island Industrial Customers Group
Attention: Mr. Paul Coxworthy (Stewart McKelvey)

Vale Newfoundland and Labrador Limited
Attention: Thomas O'Reilly, Q.C. (Cox & Palmer)

Praxair Canada Inc.
Attention: Ms. Sheryl Nisenbaum

Mr. Danny Dumaresque

Grand Riverkeepers Labrador Inc.
Attention: Roberta Frampton Benefiel

Sierra Club Atlantic
Attention: Mr. Fred Winsor