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BY EMAIL AND COURIER

February 16, 2018

Ms. Cheryl Blundon
Director Corporate Services & Board Secretary
Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2
email: cblundon@pub.nl.ca

**Re: Newfoundland and Labrador Hydro ("NLH") 2018 Capital Budget Application
Revised Information pursuant to Board Order P.U. 43 (2017)**

Dear Ms. Blundon:

On February 14, 2018, IOC became aware of the filing by NLH on January 29 of the Revised information pursuant to Order P.U. 43 (2017) with regards to the Muskrat Falls to Happy Valley transmission line.

I. Intervention of IOC

The request to approve the 2018 Capital Budget has a direct impact on the Labrador Industrial transmission rate and in particular on IOC who pays for 99.9% of the revenues of NLH under the said tariff.

The approval sought by NLH of the capital budget required for the Muskrat Falls to Happy Valley transmission line has, on its own, a financial impact on IOC of around 900 000\$ per year for the next 40 years under current conditions¹.

Because of its unique interest in the matter, IOC respectfully requests the right to intervene in the review of the Revised Information filed by NLH pursuant to Order 43 (2017) in the present proceedings.

II. 2018 Capital Budget Application

IOC does not intend, at this late stage of the proceedings, to address the detailed costs of the project, nor its alternatives. IOC's comments are limited to the timing and risks of the project.

¹ Estimate based on a capital cost of ~23m\$ leading to an annual depreciation expense of ~400 k\$, a return on capital of ~1,1m\$ and an allocation of ~60% of the cost to the Labrador industrial transmission rate. All figures are approximation and are only intended to show an order of magnitude.

MF – HVY Project Schedule

As argued by IOC in its contemporaneous comments in the NLH 2018 Industrial Customers Interim Rates Application, the project schedule has a direct impact on the 2018 Labrador Industrial transmission rate and the need for interim rates.

It is IOC’s contention that the proposed project schedule merits the attention and most probably further investigation by the Board. At the very least, it appears from the Revised Information² that the project was planned to start in January 2018. The first milestones: Planning, Engineering Design and Procurement have all already slipped, if only as a result of the normal and required regulatory process.

1 **4.2 Project Schedule**

- 2 The project schedule is provided in Table 3. The transmission interconnection would be in-
 3 service by December 2018 while the installation and commissioning of the 50 MVA
 4 transformer in Happy Valley will be completed by December 2019.

Table 3 Project Schedule

Activity		Start Date	End Date
Planning	Planning	January 2018	February 2018
Design	Engineering Design	February 2018	May 2018
Procurement	Procurement of Material and Hardware	February 2018	May 2018
Construction	Project Construction	May 2018	September 2019
Commissioning	Commissioning	September 2018	October 2019
Closeout	Project Closeout	November 2019	December 2019

Over and above its design, procurement and construction, this schedule is also linked to commercial agreements with prospective customers and the adoption of a network addition policy by the Board. The adequate determination of a reasonable commissioning date is a key determinant of just and reasonable tariffs in Labrador.

Stranded costs

The other issue to be considered by the Board is the risks associated with such a lumpy addition to the Labrador transmission network. Inasmuch as expansion fosters economic development, it should be welcomed. On the other hand, if it serves no load or if the load is not secured over the long term and if NLH has no financial guarantees to secure the required income, the addition of such significant stranded assets will unduly penalize existing customers, large and small, and cripple Labrador’s chance of attracting additional customers.

²² Tab 13 - Muskrat Falls to Happy Valley Interconnection (Revision 2 – January 25, 2018), p. 12.

Support for the Labrador Interconnected Group submissions

Last, IOC supports the more detailed submissions made by the Labrador Interconnected Group in the present proceedings that should lead the Board to conclusions that protect the interest of all interconnected Labrador ratepayers, including IOC.

Regards,

A handwritten signature in blue ink, appearing to read 'B. Pepin', with a long horizontal stroke extending to the right.

Benoit Pepin
Director Energy, North America
Rio Tinto Aluminium
Counsel to IOC