

1 **Q. (Reference Application Schedule B, pages 43 and 44 of 98) For the Reconstruction**  
2 **(Pooled) project, what led to the 26% increase in costs in 2018 over 2017 levels?**  
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4 A. The annual budget estimates for the *Reconstruction* project are calculated by taking the  
5 average of the adjusted costs for the previous 5-year period and inflating it using the GDP  
6 Deflator of Canada.<sup>1</sup> Given annual budget estimates are based on historical averages,  
7 variances from budget are simply the result of work requirements in a given year being  
8 above or below average.<sup>2</sup>  
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10 The variance from budget for the 2018 *Reconstruction* project expenditure is explained in  
11 Newfoundland Power's 2018 Capital Expenditure Report, 1<sup>st</sup> Revision, filed with the  
12 Board on March 11, 2019 and states the following;  
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14 *“The expenditure on the Reconstruction project was \$537,000 more than budget,*  
15 *primarily as a result of an above-average amount of work being completed under*  
16 *this project. The budgeted expenditure is based on the average historical*  
17 *expenditure over the previous 5 years. In 2018, the total cost of high priority*  
18 *work identified by the Company's inspection program, and required follow-up*  
19 *from operational problems, exceeded the historical 5-year average.”*

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<sup>1</sup> The 2017 *Reconstruction* project actual expenditures were \$400,000, or 8% less, than the average inflation adjusted expenditure for the preceding 5 years.

<sup>2</sup> For example, the capital expenditure associated with pole replacements resulting from vehicle accidents was \$125,000 more in 2018 compared with 2017.