

1 Q. **Reference: Application**

2 Please provide a detailed description of the procedure used to respond to unanticipated capital
3 expenditures that arise during a fiscal year after the capital budget has been approved.

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6 A. There are four mechanisms through which Newfoundland and Labrador Hydro (“Hydro”)
7 addresses unanticipated capital expenditures that arise during the fiscal year after the capital
8 budget has been approved, the usage of which is determined by the nature of the expenditure.

9 **Project Change Management Process**

10 For projects approved by the Board of Commissioners of Public Utilities (“Board”), Hydro has an
11 internal project change management process to address potential changes to the scope,
12 schedule, and cost of projects during execution. When a potential change is identified, a project
13 change notice is prepared and used as the basis of discussion between the Project Execution
14 team, asset owner, and applicable stakeholders to decide whether the change is approved or
15 rejected. When one or more approved changes result in a change to the scope, schedule, or
16 budget of a project beyond specific thresholds, a capital budget change order form is completed
17 and submitted for approval. Approved changes are then implemented by the Project Execution
18 team. The change management documentation is used as the basis for reporting any variances
19 in Hydro’s capital expenditures and carry-over report, filed annually with the Board.

20 **In-Service Failures**

21 The In-Service Failures projects included in Hydro’s annual capital budget application for specific
22 asset portfolios (i.e., hydraulic generation, thermal, and terminal stations) also provides a means
23 through which to deal with unanticipated capital expenditures. The In-Service Failure projects
24 enable Hydro to undertake refurbishment or replacement work in an efficient manner for
25 failures which are routine in nature for each of the asset classes identified and which work is of
26 an emergent nature. The circumstances under which these capital expenditures take place
27 typically are an actual failure, the identification of an incipient failure, or determination of faster

1 than anticipated equipment deterioration. These projects are also used to procure capital spare
2 items to support future in-service failure work. Hydro provides a complete list of work
3 completed in these projects in its annual capital expenditures and carry-over report.

4 **Allowance for Unforeseen Expenditures**

5 Unanticipated capital expenditures can also be addressed through the Allowance for
6 Unforeseen Items Account that permits the utility to act expeditiously to carry out emergency
7 work to restore power or restore its facilities to a safe and reliable condition, where applying for
8 such approval would be impracticable due to urgent circumstances. The requirements for this
9 account are outlined in the Capital Budget Application Guidelines as set out by the Board.¹

10 **Supplemental Capital Expenditures**

11 Other projects that arise after the current year capital budget application has been approved
12 and are necessary prior to the next capital budget cycle, but do not meet the requirements for
13 Allowance for Unforeseen Items or In-Service Failures, follow the Supplemental Capital
14 Expenditures process outlined in the Capital Budget Application Guidelines.²

¹ "Capital Budget Application Guidelines," Board of Commissioners of Public Utilities, rev. October 2007 (originally issued June 2, 2005).

² "Capital Budget Application Guidelines," Board of Commissioners of Public Utilities, rev. October 2007 (originally issued June 2, 2005), sec. B, at p. 9 of 11.