

1 **Re: Overheads, AFUDC and Escalation and Contingency**

2 Q. Explain in detail the calculation of and justification for budgeted amounts for
3 Overhead/AFUDC and Escalation and for Contingency for each of the
4 following projects:

- 5 (1) Replace off-road track vehicles;
- 6 (2) Insulator replacement;
- 7 (3) Pole replacement;
- 8 (4) Replace light duty mobile equipment;
- 9 (5) Replace vehicles and aerial devices.

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12 A. The calculation and justification for corporate overhead and the Allowance for
13 Funds used During Construction (AFUDC), escalation and contingency are
14 listed below:

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16 Corporate overhead is calculated monthly and is, annually, six percent of the
17 sum of the direct costs plus contingency costs. This overhead is intended to
18 ensure that capital projects are adequately charged with the cost of support
19 functions such as accounting and finance, procurement, operations and
20 planning engineering, and other general management expenses which
21 cannot be directly charged to specific capital projects. Corporate overhead is
22 not applied to direct purchases, therefore there is none included for the
23 replacement of off-road track vehicles, light duty mobile equipment or
24 vehicles and aerial devices.

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26 AFUDC is calculated monthly. It is the monthly AFUDC rate times the cash
27 flows accumulated to the end of the previous month plus one half of the
28 current month's cash flow (excluding AFUDC). The annual AFUDC rate is the

1 Board approved cost of capital for regulated purposes set at 7.53 percent in
2 Hydro's 2006 General Rate Application. This rate is applied until the asset is
3 available for service and is not applied to direct purchases. Therefore, there
4 is none included for the replacement of off-road track vehicles, light duty
5 mobile equipment or vehicles and aerial devices.

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7 Escalation rates are obtained from the Electric Utility Construction Price
8 Index depending on the type of work performed, such as transmission line
9 construction. This escalation rate is compounded monthly using the
10 Canadian Price Index. The escalation rate included in the 2009 Capital
11 Projects for replacement of off-road track vehicles, light duty mobile
12 equipment and vehicles and aerial devices is 2.5 percent (more material less
13 labour). The escalation rate for the replacement of insulators and poles was
14 three percent (distribution line construction). The Canadian Price Index for
15 2009 was two percent.

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17 Contingency is applied on the total direct costs on an annual basis. Hydro
18 uses a ten percent figure for contingency based on experience in cost
19 estimating and project implementation. It is an estimate to cover unforeseen
20 costs arising from uncertainties and is applied at the discretion of the project
21 estimator. All these projects have a ten percent contingency included.

PROJECT COST BREAKDOWN

(All project costs \$ x 1000)

Project	Total Direct Costs¹	Overhead	Contingency	Escalation	AFUDC	TOTAL
Replace off-road track vehicles	330.0	0.0	33.0	15.9	0.0	378.9
Insulation replacement	559.5	36.8	56.1	28.1	11.0	691.5
Pole replacement	350.5	23.3	35.1	17.6	7.2	433.7
Replace light duty mobile equipment	491.8	0.0	49.2	20.2	0.0	561.2
Replace vehicles and aerial devices	1,884.2	0.0	188.4	83.8	0.0	2,156.4

¹ Direct Costs are made up of labour, overtime, material, consultant, equipment rental, travel and contract work.