Q. **Re: IN-NLH-049**

"The Labrador City Upgrade includes two separate projects: (1) a terminal station upgrade; and (2) a distribution voltage conversion to 25 kV. The project to upgrade terminal stations to 25 kV in Labrador City will be completed in 2013. The voltage conversion project was to be completed by the end of 2013. All of the budgeted dollars are expected to be spent by the end of 2013. However, this project will not be complete. It will be proposed that this project be carried over into 2014 and 2015. Hydro intends to file a supplementary application in order to seek approval for the additional funding and extend the project by two years."

Please estimate the cost of the additional funding to be requested and the magnitude of its eventual rate impact, and explain the reason(s) why the voltage conversion project was not completed on-time and on-budget.

A. The estimated cost of the additional funding to be requested is $2 million. The incremental rate impacts in 2014 and 2015 are provided in IN-NLH-183, Attachment 1.

The following summarizes the factors resulting in the distribution voltage conversion project not being completed on-time and on-budget:

- Outage limitations – The upgrading of existing line components must be completed during system outages. It was difficult to obtain the outages necessary to complete the work, particularly in September and October, thus limiting the overall construction period;

- Increased Labour Costs – The cost of contract work for labour forces in Labrador increased from 2009 to 2013 due to higher mobilization costs and increased competition caused by a skilled labour shortage in Labrador West;

- Increased Material Procurement Costs – The cost of materials, in many cases, increased from 2009 to 2013. In addition, the cost of shipping materials to Wabush increased significantly; and

- The involvement of Hydro's operations forces requirement was underestimated in the original estimate. Costs associated with conversion from 4.16 kV to 25 kV and costs for outage preparation/execution were not fully captured as they were not fully realized at the time of project estimation.

Newfoundland and Labrador Hydro
Labrador City Upgrade Capital Expenditure Rate Implications ($000s)

Line No		A 2014	B 2015	Reference
1	Forecast Capital Expenditures [1]	809	1,191	
2	2013 Capital Expenditures [2]	1,299	1,299	
3	**Net Plant in Service Available for Equity Return**	2,108	2,490	
4	Annual Depreciation Expense Estimate	73	86	
5	Current year Depreciation Expense Estimate	37	116	Line 4 from prior years plus one-half Line 4 for current year
6	**Net Book Value for Forecast Capital Expenditures**	2,071	2,374	Line 3 - Line 5
7	**Average Change to Rate Base**	1,036	3,258	Line 6 from prior years plus one-half Line 6 for current year
8	Return on Rate Base - Debt Component	5.618%	5.618%	2013 Test Year
9	Return on Rate Base - Equity Component	2.211%	2.211%	2013 Test Year
	Revenue Requirement Impacts			
10	Return on Debt	58	183	Line 7 x Line 8
11	Return on Equity	23	72	Line 7 x Line 9
12	Annual Depreciation Expense Estimate	37	116	Line 5
13	**Total Revenue Requirement Impacts [3]**	**118**	**371**	Lines 10 to 12

[1] Labrador City Upgrade estimated additional funding to be requested.

[2] 2013 Capital Expenditures approved as part of initial Labrador City Upgrade budget. These assets were not in-service in 2013 therefore not reflected in 2013 GRA proposed rates. The in-service timing is estimated.

[3] Represents an incremental increase of approximately 0.7% in 2014 and 2% in 2015 relative to the 2013 Test Year Labrador Interconnected revenue requirement.