

1 **Q. Reference: Page 83 of 85 - Allowance for Unforeseen Items (Other) - \$750,000**

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3 **Does Newfoundland Power believe that the Allowance for Unforeseen Items should**
4 **be increased to more accurately reflect current requirements and to reduce the**
5 **number of supplementary applications.**
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7 A. The Allowance for Unforeseen Items (the “Allowance”) is, in effect, a budgetary estimate
8 of the requirements for capital expenditures to respond to emergency circumstances. The
9 Allowance enables the utility to expend capital in certain circumstances without prior
10 approval of the Board. For budgetary purposes, Newfoundland Power’s longstanding
11 annual estimate of such unforeseen capital expenditure requirements is \$750,000. This
12 amount has been viewed by Newfoundland Power as a reasonable annual budgetary
13 estimate for purposes of the Allowance.
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15 Unforeseen emergency capital expenditure requirements are inherently unpredictable and
16 widely variable. However, the historical usage of the Allowance provides some guidance
17 in determining a reasonable estimate for budgetary purposes.
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19 The response to Request for Information PUB-NP-005 provides a summary of
20 Newfoundland Power’s use of the Allowance over the 10-year period from 2003 through
21 2012. Over that period, the Company has used the Allowance a total of 11 times, and has
22 made 6 applications for the addition of supplementary amounts to the Allowance. Total
23 annual expenditures under the authority of the Allowance, in the years in which the
24 Allowance was used, have ranged from approximately \$305,000 in 2011 to
25 approximately \$6.0 million in 2010.
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27 The average annual expenditure for the 7 years in which the Allowance was used was
28 approximately \$1.4 million ($\$9,889,000 \div 7 = \$1,412,714$). In 2010, total expenditure
29 under authority of the Allowance was approximately \$6 million. If use of the Allowance
30 in 2010 is removed from the calculation, the average annual expenditure is reduced to
31 approximately \$665,000 ($\$3,990,000 \div 6 = \$665,000$).
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33 If the Board were to increase the Allowance based on a higher budgetary estimate, this
34 would tend to reduce the requirement for supplementary applications to replenish the
35 Allowance. In Newfoundland Power’s view, however, the number of supplementary
36 applications that have been required with the current budgetary estimate of \$750,000
37 does not appear excessive.
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39 In conclusion, it is Newfoundland Power’s view that the current estimate of \$750,000
40 strikes a reasonable balance, allowing the Company to act expeditiously in emergency
41 circumstances, while permitting appropriate Board oversight of unforeseen capital
42 expenditure requirements.