

1 Q. Please provide details of Hydro's contingency policy including details of the \$1.8M
2 contingency calculation for this project.

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5 A. The contingency applied to a project is generally based on the level of project
6 definition and is provided to cover unexpected costs and uncertainty in the cost
7 estimates. Within the Association for the Advancement of Cost Engineering (AACE)
8 estimate classification system, typical contingencies are suggested based on the
9 class of estimate being developed, with generally higher contingencies applied to
10 estimate classes with lower levels of project definition and lower contingencies
11 applied to estimate classes with higher levels of project definition. The AACE
12 classification system identifies estimates appropriate for budget authorization as
13 Class 3 estimates with an expected accuracy range of minus 20 percent to plus 30
14 percent.

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16 Capital project budget estimates prepared by Hydro for regulatory approval are
17 typically consistent with AACE Class 3 estimates. Hydro's practice is to apply a 20
18 percent contingency to such estimates to reflect and account for the expected
19 accuracy range, consistent with the AACE estimate classification system. For
20 comparison, a ten percent contingency is more suited to projects in which 80
21 percent of the engineering is complete and the project scope has been tendered or
22 quoted. Hydro's approach is to complete the reasonable amount of front end
23 engineering at the budget proposal stage and carry a representative contingency in
24 keeping with the level of engineering completed.

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26 The budget estimate for this project proposal is consistent with a Class 3 estimate,
27 and a 20 percent contingency is appropriate.