

1    Q.    **Governance**

2            Provide the guidelines issued to guide capital and expense budget preparation for  
3            the budget years 2011-2015.

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6    A.    The preparation of the annual Hydro capital and expense budgets respectively start  
7            in the fall and summer of each fiscal year. These budgets are prepared by various  
8            levels of Hydro staff with review and approval by Managers, Executive and the  
9            Hydro Board. The Hydro capital budget is specifically submitted to the Board of  
10           Commissioners of Public Utilities for review and approval each fiscal year.

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12           The preparation of the Hydro expense budget follows guidelines issued annually at  
13           the Nalcor company level for all lines of business (including Hydro), which for the  
14           years 2011 to 2015 are attached as PUB-NLH-414 Attachments 1, 2, 3, 4 and 5.

15           More specifically, Hydro utilizes these budget guidelines to address Hydro's  
16           expense budget categories: operating and maintenance, fuel, power purchases,  
17           depreciation and interest expense. If requested by budget preparers, Hydro's  
18           financial controller offers additional clarification on guidelines. In addition, Hydro  
19           follows Nalcor's guidelines on budget timelines and key budget deliverables to  
20           arrive at final review and approval by the executive and Board of Directors.

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22           The preparation of the annual Hydro capital budget follows the guidelines issued by  
23           the Board of Commissioners of Public Utilities, which is attached as PUB-NLH-414  
24           Attachment 6.

**The Nalcor Group of Companies  
2011 Budget Guidelines**

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The guidelines for 2011 budget preparation are outlined below. The annual budget process provides the opportunity for a comprehensive strategic and operational review. The output of the process is the financial budget for the coming year and will be used in communications with our board of directors, various financial institutions, the provincial government and the Public Utilities Board. It is therefore important that you consider all known factors in creating an accurate budget and provide sufficient detail to support your budgets. This document is intended to outline key dates and assumptions and procedures related to the overall budget cycle. Additional instructions and time tables will be provided by the Line of Business Controllers as required.

**Highlights:**

- 2011 O&M budgets will be completed using Clarity.
- Training costs for Hydro will be budgeted in Human Resources.
- Training costs for other lines of business should be budgeted within each business unit in the line of business.
- Please ensure that where appropriate, you consider the impacts of IFRS such that you are able to extract information from the budget as required. More information can be obtained from the Line of Business (LOB) Controllers.
- Human Resources will provide the salary estimates for permanent positions and templates for temporary staff. Details will be available by the beginning of August, 2010.

**Summary of key dates:**

- O&M budgets to be completed by September 13, 2010
- Review from September 16 – 28, 2010
- Budget presentation with CFO – October 5 - 8, 2010
- Budget presentation with CEO – October 18 – 25, 2010

The Nalcor Group of Companies  
2011 Budget Guidelines

## 1.0 Budget Timetable

Date	Activity	Responsibility
<b>Training</b>		
Aug 20	Training requirements to HR	BU's
<b>Salaries</b>		
Aug 1	Salary templates to BU's	Human Resources
Aug 1 – Sep 13	Position Review	BU's / TLSS / Human Resources
<b>O&amp;M</b>		
Sep 13	O&M budgets complete	TLSS / Managers
Sep 14 – 28	O&M review and re-drafts	LOB Controllers / LOB VP
<b>Depreciation</b>		
Sep 10	Depreciation expense template completed for all entities	Capital assets
<b>Fuel</b>		
Sep 10	Fuel budget	Systems Operations
<b>Power Purchase</b>		
Sep 17	Power purchases and diesel fuel info	System operations / Systems Planning
<b>Revenue</b>		
Sep 14	RSP calculations	Financial reporting and budgeting
Sep 17	Revenue projections to Financial Reporting	Rates / LOB Controllers
Sep 18	Revenue templates completed	Financial reporting and budgeting
<b>Capital Budgets</b>		
Sep 20	Capital budget to Financial Reporting	Capital Assets
Sep 24	Cash flow info to Treasury	Financial reporting and budgeting
<b>Treasury</b>		
Sep 17	Debt repayments to Financial Reporting	Treasury
Sep 27	Interest expense template completed	Treasury
<b>Financial Statements</b>		
Sep 20	Fcst BS to Dec 31 with Aug actuals	Financial reporting and budgeting
Oct 1	Financial Statements by LOB	Financial reporting and budgeting
<b>Budget reviews with CFO</b>		
Oct 5	BAF, Nalcor, Energy Marketing / LCP	LOB Controllers, CFO, Corporate Controller, Asst Controller
Oct 6	Oil and Gas	Line of Business Controller, CFO, Corporate Controller, Asst Controller
Oct 7	Churchill Falls / Twin Falls	Line of Business Controller, CFO, Corporate Controller, Asst Controller

The Nalcor Group of Companies  
2011 Budget Guidelines

Oct 8	Hydro	Line of Business Controller, CFO, Corporate Controller, Asst Controller
<b>Budget reviews with CEO</b>		
Oct 18	Oil and Gas Budget review with CEO	Line of Business controller, VP LOB, Corporate Controller, Asst Controller, CFO, CEO
Oct 18	Bull Arm Fabrication	Line of Business controller, VP LOB, Corporate Controller, Asst Controller, CFO, CEO
Oct 18	Energy Marketing LCP	Line of Business controller, VP LOB, Corporate Controller, Asst Controller, CFO, CEO
Oct 21	NLH	Line of Business controller, VP LOB, Corporate Controller, Asst Controller, CFO, CEO
Oct 25	Churchill Falls	Line of Business controller, VP LOB, Corporate Controller, Asst Controller, CFO, CEO
Oct 25	Nalcor	Corporate Controller, Asst Controller, CFO, CEO
<b>Budget Package</b>		
Oct 15	Update Fcst BS to Dec 31 with Sep actuals	Financial reporting and budgeting
Nov 5	Budget package for BOD	Financial reporting



The Nalcor Group of Companies  
2011 Budget Guidelines

## 2.0 Guidelines

### O&M

Clarity will be the primary tool used to complete the 2011 budget. Please refer to the Budget Training documentation for information. Information will be consolidated using Clarity eliminating the necessity of emailing budgets.

### Contacts

Budgetary responsibility / contact is as follows:

Dept	Nalcor	Hydro	CF	Twin Falls	Oil and Gas	Bull Arm	LCP
Executive							
Human Resources							
Finance							
Project Execution							
Regulated Operations							
Regulated Ops – System Operations							
Energy Marketing							
Menihek							
Exploits							
Operations / Admin							

Contact Telephone #'s							
Ext.:							

**The Nalcor Group of Companies  
2011 Budget Guidelines**

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**O&M Forecast**

Any references to the 2010 forecast as a comparative figure will include the actual results for the eight months ended August 31, 2010 plus the forecast for the remaining four months of 2010. Please ensure your **August 2010** forecast reflects your best estimate of the annual costs as this number will be used in the variance calculations as presented to senior management and the Board of Directors.

**Entering budgets in JDE**

Budgets will be entered in JDE electronically through budget upload feature from Clarity. Budgets will be uploaded by the Controller's department in January 2011.

**Salaries**

Salaries will be budgeted in two categories, full time permanent and temporaries with separate accounts used to capture each.

**Full time permanent staff** estimates will be provided by Human Resources through templates from Clarity. Templates will be available August 1, 2010 for review. If there are issues with pay grades, please correspond **directly with Human Resources.** Additional information regarding the salary process will be provided by the beginning of August including contact information.

**Temporary staff** must be budgeted using the Clarity template provided by Human Resources. Additional information regarding the salary process will be provided by the beginning of August including contact information.

**Employee Benefits**

**Fringe benefits** will be automatically calculated by Clarity and will be populated as salary information is completed.

**Employee Future Benefits** will be automatically calculated by Clarity and will be populated as salary information is completed.

**Group Insurance** will be automatically calculated by Clarity and will be populated as salary information is completed.

**Vacancy Allowance** will be automatically calculated by Clarity and will be populated as salary information is completed.

## The Nalcor Group of Companies 2011 Budget Guidelines

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### **Recharged salaries**

Salary recharging is of significant importance throughout Nalcor for both intercompany and intra company charging. Please budget your labour out by identifying where you intend to charge the labour by using the [Labour Recharge Template](#) available in Clarity to facilitate the reconciliation of interdivisional and intercompany salaries. The labour recharge template will be available in mid August. Labour recharge should be calculated using bill rates and the fixed charge recovery (cross company transactions only) as applicable.

### **Labour charged to Capital**

Please budget your capital labour allocations based on the labour component of the 2011 capital budget submissions, ensuring that it is reflective of your business unit's planned activity levels for the year.

**Capital % allocation** will be calculated by the Controller department and will be populated by August 31, 2010.

### **Training costs**

#### Hydro

The training budget for Hydro is administered by Human Resources. The budget for Training should only include training registration or course fees and will be consolidated by and included in HR budgets. All travel associated with training must be budgeted in travel (6505) of the originating department.

Training has been and continues to be a Line Management Responsibility but the budget resides in Human Resources. Human Resources provides a support service to that process to assist where possible to make the most of the training dollars while ensuring employees attain the required knowledge and skill for their jobs.

To assist Human Resources in the preparation of the corporate training budget, please complete the [Training Budget Recommendation Form](#) (found in the Forms database). All employee training and development needs should be considered and documented on this form. Subsequent to budget approval, Human Resources will advise as to the training budget allocation by Department/Division.

If you have any questions, please contact [REDACTED], HR Specialist – People Development [REDACTED], for her support.

**The Nalcor Group of Companies  
2011 Budget Guidelines**

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**Nalcor and other entities (excl. Hydro)**

Please budget training requirements in the respective business units. In addition, you must complete the [Training Budget Recommendation Form](#) (found in the Forms database) and forward the completed form to the Human Resources department, attention: [REDACTED], HR Specialist – People Development. If you have any questions, please contact [REDACTED] at [REDACTED] for her support. **The completion and forwarding of the form to the HR department allows the department to assess the overall corporate training needs.**

**Professional Services and Consulting**

All business units requiring professional services in 2011 must provide a summary of the services and the cost associated with each. A Professional Service and Consulting Template will be provided in Clarity to assist you in building your budget while providing the level of detail required by senior management. The template will be available in mid August. Once you have completed the Professional Service and Consulting Template, the totals will be updated on the O&M non maintenance budget template.

**Conferences**

The budget for conferences should only include the registration fee. All other cost should be budgeted with travel. Please be prepared to support the funding proposal with details such as conferences names, dates, fees etc.

**Other expenses**

All other expenses should be based on planned activity levels. Justification should be available for discussion during the budget review process.

### **3.0 Budget Reviews**

Budget reviews will be held with both the CFO and the CEO beginning in October as per the budget timetable. Lines of Business (lead by LOB Controllers) should prepare a presentation that covers the income statement and capital plan. A high level guide as to the information that should be included in the line of business budget presentation is as follows:

- Revenue
  - Price assumptions
  - Volume assumptions
  - Price / volume variance analysis
  - Discussion of markets including challenges and opportunities
- Operating Costs
  - O&M

**The Nalcor Group of Companies  
2011 Budget Guidelines**

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- 7 year summary (available in Clarity) by cost category
- 7 year summary (available in Clarity) by division / department
- Waterfall Variance (2011 vs. 2010 budget)
- Waterfall variance (2011 vs. 2010 budget) for permanent and temporary salaries in dollars and FTE's
- Listing of vacant positions
- Professional fee details
- Summary by work plan (corrective, preventative, non maintenance, operating projects)
- Listing of operating projects
- Other expenses
  - Waterfall variances (2011 vs. 2010 budget) by category as applicable
- Depletion
  - Assumptions and calculations
- Waterfall variance - Net income (2011 vs. 2010 budget)
- Waterfall variance - Net income (2011 vs. 2010 forecast)
- Capital Expenditure Summary by project
- Other relevant information as required.

The guidelines for 2012 budget preparation are outlined below. The annual budget process provides the opportunity for a comprehensive strategic and operational review. The output of the process is the financial budget for the coming year and will be used in communications with our board of directors, various financial institutions and the provincial government. It is therefore important that you consider all known factors in creating an accurate budget and provide sufficient detail to support your budgets. This document is intended to outline key dates and assumptions and procedures related to the overall budget cycle. Additional instructions and time tables will be provided by the Line of Business Controllers as required.

**Highlights:**

- 2012 O&M budgets will be completed using Clarity using a revised process for budget completion. (See attached details on 2012 Budget O&M Guidance)
- Please ensure that where appropriate, you consider the impacts of IFRS such that you are able to extract information from the budget as required. More information can be obtained from the Line of Business (LOB) Controllers.
- Human Resources will provide the 2012 salary estimates for all permanent and temporary positions. However, all temporary estimates will have to be confirmed and justified. Report details on 2012 salary estimates will be available September 21st.

**Summary of key dates:**

- 2012 Capital budgets should be forwarded to Capital Asset Accounting to the attention of [REDACTED] by September 30. (sooner if possible)
- O&M budgets to be completed by October 7, 2011
- Presentation deck for Line of Business (LOB) available September 30, 2011
- LOB Budget Presentation due October 12, 2011
- Budget review with General Manager Finance & Corporate Services – October 19-20, 2011 (Proposed dates)
- Budget presentation with CEO – November 1 – 3, 2011 (Proposed dates)

## 1.0 Budget Timetable

Date	Activity	Responsibility
<b>Salaries</b>		
Sept 21	O&M Salary templates to BU's	Human Resources
Oct 3	Salary Templates completed	Managers & Budgetary Contact
<b>O&amp;M</b>		
Oct 7	Clarity O&M budgets templates completed	Managers & Budgetary Contact
<b>Capital Budgets</b>		
Sep 30	All Capital budget proposals submitted to Capital asset Accounting.	Managers & Budgetary Contact
<b>Revenue</b>		
Oct 7	Revenue Budget to Financial Reporting (FR)	LOB Controllers
Oct 7	Clarity Revenue templates completed	LOB Controllers
<b>Depreciation</b>		
Oct 7	Depreciation & Amortization in Clarity	Capital Assets & LOB Controllers
<b>Gain or Loss</b>		
Oct 7	Gain & Loss Estimates in Clarity	Capital Assets
<b>Capital Cash Flow</b>		
Oct 7	Capital budget cash flow to FR	Capital Assets
<b>Rental &amp; Royalty Expense</b>		
Oct 7	Rental & Royalty in Clarity	
<b>Interest</b>		
Sep 26	Debt repayments to Financial Reporting	Treasury
Oct 12	Cash flows to Treasury	Financial Reporting
Oct 14	Interest expense template completed	Treasury
<b>Budget Package</b>		
Oct 12	Budget Package submitted to Finance	LOB Controllers
<b>Financial Statements</b>		
Oct 12	Forecast BS to Dec 31 with Aug actuals	Financial Reporting
Oct 17	Financial Statements by LOB	Financial Reporting
Oct 18	Consolidated Financial Statements	Financial Reporting
<b>Budget reviews with General Manager</b>		
Oct 19	BAF, Energy Marketing / LCP	Controllers Group, General Manager Finance, VP
Oct 19	Oil and Gas	Controllers Group, General Manager Finance, VP
Oct 20	Churchill Falls / Twin Falls	Controllers Group, General Manager Finance, VP
Oct 21	Nalcor	Controllers Group, General Manager Finance, VP
<b>Budget reviews with CEO</b>		

**The Nalcor Group of Companies  
2012 Budget Guidelines**

Nov 1	Oil and Gas Budget review with CEO	Controllers Group, CEO, CFO, VP
Nov 1	Bull Arm Fabrication	Controllers Group, CEO, CFO, VP
Nov 2	Energy Marketing & LCP	Controllers Group, CEO, CFO, VP
Nov 2	Churchill Falls	Controllers Group, CEO, CFO, VP
Nov 3	Nalcor	Controllers Group, CEO, CFO
<b>Budget Package</b>		
Nov 14	Budget package for BOD	Financial reporting

## 2.0 Guidelines

### O&M (see attached O&M memo for further details)

A new process has been introduced for completing the O&M budgets in Clarity for 2012. A base budget will be provided by Finance in Clarity and the Business Units will be responsible for providing details supporting the necessary changes. See attached O&M guidance for additional details.

### Contacts

Budgetary responsibility / contact is as follows:

Dept	Nalcor	CF	Twin Falls	Oil and Gas	Bull Arm	LCP
Executive						
Human Resources						
Finance						
Project Execution						
Regulated Operations						
NR Business Units						
Energy Marketing						
Menihek						
Exploits						
Operations / Admin						

Contact Telephone #'s						
Ext.:						



### **O&M Forecast**

Any references to the 2011 forecast as a comparative figure will include the actual results for the eight months ended August 31, 2011 plus the forecast for the remaining four months of 2011.

### **Entering budgets in JDE**

Budgets will be entered in JDE electronically through budget upload feature from Clarity. Final budgets will be uploaded by the Controller's department after sign-off from the Board of Directors.

### **Budget Presentation**

A Power Point template outlining the required information will be provided to each LOB Controller by September 30<sup>th</sup>. This template should be completed and returned to [REDACTED] by end of day on October 12<sup>th</sup>. This presentation will be reviewed with the Leadership team on the scheduled time table dates.

### **Capital Budget**

In keeping with Management's decision to develop and maintain a Five-Year Capital Plan we are requesting your cooperation in completing this exercise for the years 2012 to 2016.

For the preparation of your Capital Budget, please use the Capital Budget Proposal form found on the Lotus Notes Forms Database.

To assist you with your Capital Budget requirements, please contact:

[REDACTED] [REDACTED]

## 2012 Budget O&M Guidance

A revised budget process putting the emphasis on change in budget from one year to the next has been developed. The new approach is designed to reduce business unit owners input with a concentration on items that are considered to be new yearly costs such as professional services, operating projects and temporary salaries. The process is also designed to expedite the review process with a focus on mostly new budgetary items.

### Budget 2012 Methodology:

Budget will be broken into **3 components**:

1. **Salaries** – Salary increments for all current 2011 Permanent and Temporary salaries to be completed by HR.
2. **Non-controllable costs** – to be provided by Controller's Department. (see attached list of non-controllable costs in appendix A)
3. **Base Budget** (excluding salaries and associated benefits) will be based on 2011 budgeted costs escalated by an inflation index of 2.2%.

### Requirements from Business Unit managers:

- Update Salary Budget template that will be provided by HR. Guidelines for completion will also accompany the template which is similar to last year's exercise. Please update with assistance from your Administrator or Budgetary Contact (see Page 3 of budget guidelines).
- Complete **Inter-Company Labour charge out allocations** template – forwarded to [REDACTED] (Note: Nalcor BU's have already been completed for GRA budget)
- Complete **requests for additional expenditures** using Clarity templates. Any required changes to base budget items above the inflation index of 2.2 % must be requested with required justification
- For any expenditure above the Base Budget, as well as any new FTEs, Business Unit managers will be responsible to justify the increase. The justification should include the following:
  - Amount of the Expenditure
  - Explanation of why the expenditure is required
- These requests will be completed in conjunction with your Administrator or Budgetary contact.
- **Note:** All **Consultants, Temporary Salaries** and **Operating projects** will be zero based and treated as new requested expenditures requiring justification. All above requirements should be provided to your Administrator or Budgetary Contact by **October 7<sup>th</sup>, 2011.**

**The following will be provided by Controller's Department and HR:**

- An intercompany labour template (similar to template provided for the 2011 Budget process)
- A Clarity Budget Report outlining your Base 2012 Budget
- A Clarity Salary template outlining your 2012 Budget salaries updated by HR
- A Clarity template for requesting additional expenditures

Any concerns or questions can be addressed to [REDACTED]  
[REDACTED]

The guidelines for 2013 budget preparation are outlined below. The annual budget process provides the opportunity for a comprehensive strategic and operational review. The output of the process is the financial budget for the coming year and will be used in communications with our board of directors, various financial institutions and the provincial government. It is therefore important that you consider all known factors in creating an accurate budget and provide sufficient detail to support your budgets. This document is intended to outline key dates and assumptions and procedures related to the overall budget cycle. Additional instructions and time tables will be provided by the Line of Business Controllers as required.

**Highlights:**

- 2013 O&M budgets will be completed using Clarity and based on escalation from 2012. (See attached details on 2013 Budget O&M Guidance)
- Human Resources will provide the 2013 salary estimates for all permanent and temporary positions. However, all temporary estimates will have to be confirmed and justified. Details on 2013 salary estimates will be available August 31<sup>st</sup> in Clarity.

**Summary of key dates:**

- Salary templates completed by **September 14<sup>th</sup>**.
- 2013 Capital budgets should be forwarded to Capital Asset Accounting to the attention of [REDACTED] by **September 21st**
- O&M budgets to be completed by **September 28th**
- Line of Business (LOB) Budget Presentation due **October 5<sup>th</sup>**
- Budget review with General Manager Finance & Corporate Services – **October 15-16** (Proposed dates)
- Budget presentation with CEO – **October 29-31** (Proposed dates)

## 1.0 Budget Timetable

Date	Activity	Responsibility
<b>Salaries</b>		
Sep 14	Salary Templates completed	Managers & Budgetary Contact
<b>O&amp;M</b>		
Sep 28	Clarity O&M budgets templates completed	Managers & Budgetary Contact
<b>Capital Budgets</b>		
Sep 21	All Capital budget proposals submitted to Capital asset Accounting.	Managers & Budgetary Contact
<b>Revenue</b>		
Sep 28	Revenue Budget to Financial Reporting (FR)	LOB Controllers
Sep 28	Clarity Revenue templates completed	LOB Controllers
<b>Depreciation</b>		
Sep 28	Depreciation & Amortization in Clarity	Capital Assets & LOB Controllers
<b>Gain or Loss</b>		
Sep 28	Gain & Loss Estimates in Clarity	Capital Assets
<b>Capital Cash Flow</b>		
Sep 28	Capital budget cash flow to FR	Capital Assets
<b>Rental &amp; Royalty Expense</b>		
Oct 1	Rental & Royalty in Clarity	
<b>Interest</b>		
Sep 21	Debt repayments to Financial Reporting	Treasury
Oct 5	Cash flows to Treasury	Financial Reporting
Oct 10	Interest expense template completed	Treasury
<b>Budget Package</b>		
Oct 5	Budget Package submitted to Finance	LOB Controllers
<b>Financial Statements</b>		
Oct 11	Forecast BS to Dec 31 with July actuals	Financial Reporting
Oct 12	Financial Statements by LOB	Financial Reporting
Oct 15	Consolidated Financial Statements	Financial Reporting
<b>Budget reviews with General Manager (Proposed)</b>		
Oct 15	BAF, Energy Marketing / LCP	Controllers Group, General Manager Finance, VP
Oct 15	Oil and Gas	Controllers Group, General Manager Finance, VP
Oct 16	Churchill Falls / Twin Falls	Controllers Group, General Manager Finance, VP
Oct 16	Nalcor	Controllers Group, General Manager Finance, VP
<b>Budget reviews with CEO (Proposed)</b>		
Oct 29	Oil and Gas	Controllers Group, CEO, CFO, VP

**The Nalcor Group of Companies  
2013 Budget Guidelines**

Oct 29	Bull Arm Fabrication	Controllers Group, CEO, CFO, VP
Oct 30	Energy Marketing & LCP	Controllers Group, CEO, CFO, VP
Oct 30	Churchill Falls	Controllers Group, CEO, CFO, VP
Oct 31	Nalcor	Controllers Group, CEO, CFO
<b>Budget Package</b>		
Nov 14	Budget package for BOD	Financial reporting

## 2.0 Guidelines

### O&M (see attached O&M memo for further details)

A base budget will be provided by Finance in Clarity and the Business Units will be responsible for providing details supporting the necessary changes. See attached O&M guidance for additional details.

### Contacts

Budgetary responsibility / contacts are as follows:

Dept	Nalcor	CF	Energy Mkting	Twin Falls	Oil and Gas	Bull Arm	LCP
Executive							
Human Resources							
Finance							
Project Execution							
Regulated Operations							
NR Business Units							
Menihek							
Exploits							
Operations / Admin							

Contact Telephone #'s							
Ext.:							

## O&M Forecast

Any references to the 2012 forecast as a comparative figure will include the actual results for the **seven months ended July 31, 2012** plus the forecast for the remaining five months of 2012.

## Entering budgets in JDE

Budgets will be entered in JDE electronically through budget upload feature from Clarity. Final budgets will be uploaded by the Controller's department after sign-off from the Board of Directors.

## Budget Presentation

A Power Point template outlining the required information will be provided to each LOB Controller by **September 21<sup>st</sup>**. This template should be completed and returned to [REDACTED] by end of day on **October 5<sup>th</sup>**. This presentation will be reviewed with the Leadership team on the scheduled time table dates.

## Capital Budget

For the preparation of your Capital Budget, please use the Capital Budget Proposal form found on the Lotus Notes Forms Database.

To assist you with your Capital Budget requirements, please contact:

[REDACTED] [REDACTED]

## Budget 2014 Instructions Nalcor Group of Companies

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### 1.0 Overview

#### 1.1 Introduction

The guidelines for 2014 budget preparation are outlined below. The annual budget process provides the opportunity for a comprehensive, strategic and operational review. The output of the process is the financial budget for the coming year and will be used in communications with our Board of Directors, various financial institutions, and the provincial government. *It is therefore important that you consider all known factors (such as various cost drivers and activities) in creating an accurate budget and provide sufficient detail to support your estimates.*

Support for all costs should be available; however, all costs above 2.2% escalation over the August 2013 forecast will be specifically highlighted during the review process. Where possible, costs should be maintained within an overall increase of 2.2% or less.

#### 1.2 Highlights

- The following Clarity templates will be used to facilitate the budget process:
  - Salary Budget Template (Perm and Temp)
  - Professional Services & Training Template (various cost types available in the template)
  - Main Activity template (input for Operating Projects)
- The 2014 ledger type Budget V1 will be available for input in the Non-Maintenance Budget Template in Clarity on July 9th.

#### 1.3 Summary of Key Dates

Deadline	Requirement
<b>August 30th</b>	Salary templates completed by BU Managers & Site Service Administrators
<b>September 10th</b>	2014 Capital budgets should be forwarded to Capital Asset Accounting to the attention of Cathy Vokey
<b>September 13th</b>	All O&M budgets to be completed
<b>October 10th</b>	Line of Business (LOB) Budget Deck submitted to Finance
<b>October 17th - 18th</b>	Budget review with General Manager Finance & Corporate Services
<b>TBD (Oct 21st - Oct 31st)</b>	Budget presentation with CEO
<b>November 13th</b>	Budget package for the Board of Directors completed



## Budget 2014 Instructions Nalcor Group of Companies

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### 1.4 Budget Contacts

Questions on the 2014 budget process or these instructions can be directed to [REDACTED]  
[REDACTED]

### 1.5 Budget Timetable - **Appendix A**

### 1.6 Budget Requirements - **Appendix B**

**Budget 2014 Instructions**  
**Nalcor Group of Companies**

**APPENDIX A**

**BUDGET TIMETABLE**

<b>Date</b>	<b>Activity</b>	<b>Responsibility</b>
<b>Salaries</b>		
Jul 31	Salary Budget Template available	Corporate
Aug 30	Salary templates completed	BU Managers & Site Service Administrators
<b>Capital Budgets</b>		
Sep 10	All capital budget proposals & annual expenditures (O&G) submitted to capital asset accounting.	O&G Controller and Coordinators of LCP, PETS & Exploits
<b>O&amp;M</b>		
Sep 13	Non-maintenance, Main Activity and Professional Services/Training clarity templates complete	BU Managers & Site Service Administrators
<b>Revenue</b>		
Sep 20	Ensure revenue budget updated in Clarity	LOB Controllers
<b>Fuel &amp; Power Purchases</b>		
Sep 20	Ensure power purchases updated in Clarity	LOB Controllers
Sep 20	Diesel Fuel & Bunker C updated in Clarity	LOB Controllers
<b>Depreciation &amp; Depletion</b>		
Sep 20	Depletion in Clarity	Capital Assets & LOB Controllers
Sep 27	Depreciation & Amortization in Clarity	Capital Assets & LOB Controllers
<b>Gain or Loss</b>		
Sep 27	Gain & Loss estimates in Clarity	Capital Assets & LOB Controllers
<b>Capital Cash Flow</b>		
Sep 27	Capital budget cash flow to Corporate	Capital Assets & LOB Controllers
<b>RSP</b>		
Sep 27	Ensure RSP calculations are updated in Clarity	Corporate
<b>Interest</b>		
Sep 30	Interest calculation (other than short term)	Treasury
<b>Preferred Dividends</b>		
Sep 30	Preferred dividends in Clarity	CF Controller
<b>Rental &amp; Royalty Expense</b>		
Sep 30	Rental & Royalty in Clarity	Corporate
<b>JDE Update</b>		

**Budget 2014 Instructions**  
**Nalcor Group of Companies**

Sep 30	Budget copied from Clarity to JDE (Ledger Type Budget 2014 V1)	Corporate
<b>Interest</b>		
Sep 13	Debt repayments to Corporate	Treasury
Oct 4	Cash flows to Treasury	Corporate
Oct 9	Interest expense template completed	Treasury
<b>Review with Service Department VP</b>		
Oct 7th – 9th	Review with Hydro & Nalcor service departments	BU Managers, Corporate, VP
<b>Budget Package</b>		
Oct 10	Budget Package submitted to Finance	LOB Controllers, Corporate
<b>Financial Statements</b>		
Oct 11	Forecast BS to Dec 31 with Aug actuals	Corporate
Oct 11	Financial Statements by LOB	Corporate
Oct 15	Consolidated Financial Statements	Corporate
<b>Budget reviews with General Manager</b>		
Oct 17	BAF / Energy Marketing / Oil & Gas	Finance, General Manager Finance, VP
Oct 17	LCP / Hydro	Finance, General Manager Finance, VP
Oct 18	Churchill Falls / Twin Falls	Finance, General Manager Finance, VP
Oct 18	Nalcor	Finance, General Manager Finance, VP
<b>Budget reviews with CEO</b>		
TBD	Oil and Gas Budget review with CEO	Finance, CEO, CFO, VP
TBD	Bull Arm Fabrication	Finance, CEO, CFO, VP
TBD	Energy Marketing & LCP	Finance, CEO, CFO, VP
TBD	Churchill Falls	Finance, CEO, CFO, VP
TBD	Hydro	Finance, CEO, CFO, VP
TBD	Nalcor	Finance, CEO, CFO
<b>Budget Package</b>		
Nov 13	Budget package for BOD	Corporate

**Budget 2014 Instructions**  
**Nalcor Group of Companies**

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**APPENDIX B**

**2.0 BUDGET REQUIREMENTS**

**2.1 O&M Forecast - 2013**

Please ensure your August 2013 forecast reflects your best estimate of the annual costs, as this number will be used in the variance calculations as presented to senior management and the Board of Directors.

Any references to the 2013 forecast as a comparative figure will include the actual results for the eight months ended August 31, 2013 plus the forecast for the remaining four months of 2013.

**2.2 IFRS & C-GAAP Adjustments**

Adjustments will be updated in Clarity and JDE in conjunction with the preparation of the budget package and will be the responsibility of each LOB controller, with technical support as necessary from the Assistant Corporate Controller.

**2.3 Salaries**

**a) Full Time Permanent and Temporary Salaries**

The **Salary Budget Template** will be available on July 31<sup>st</sup> to assist you in building your budget.

Salaries will be budgeted in two categories, full time permanent and temporaries with separate accounts used to capture each.

*Full time permanent staff* for the current year will be listed within the template. Any new positions not indicated must be added to the bottom of the template and any positions not required should be removed. To remove a position, the hours associated must be zeroed out.

*Temporary staff* from the prior year will be listed within the template by position. The hours for these positions must be added to reflect current year data. In addition, any new temporary positions must be added to the bottom of the template.

**b) Fringe Benefits, Group Insurance, Employee Future Benefits and Vacancies**

Fringe Benefits, Group Insurance, Employee Future Benefits and Vacancies (where applicable) will be calculated based on information entered into your **Salary Budget Template**.

## Budget 2014 Instructions Nalcor Group of Companies

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- *Balances within Employee Future Benefits will vary based on certain market conditions such as interest rates and are therefore, subject to material fluctuations.*

### c) Recharged salaries

These areas will be budgeted based on actual 2012 activity, with the salary dollars updated to reflect 2014 salary projections.

- i. Intercompany salaries (across LOB's)
- ii. Intracompany labour (within LOB's)
- iii. Capital labour allocations

### Intracompany Operating Projects

Salaries charged within a LOB through operating projects should be completed using the **Main Activity Template**, as was done in previous years. This template will be available on July 11<sup>th</sup> to assist you in building your budget.

### 2.4 Professional Services & Training

The **Professional Services & Training Budget Template** will be available on July 16<sup>th</sup> to assist you in building your budget.

#### Training costs

##### *Hydro*

The training budget for Hydro is administered by Human Resources. The budget for Training should only include training registration or course fees and will be consolidated by and included in HR budgets. All travel associated with training must be budgeted in travel (6505) of the originating department.

If you have any questions, please contact [REDACTED], HR Specialist – People Development [REDACTED], for her support.

##### *All other entities*

Please budget training requirements for all other entities in your respective business units.

### 2.5 All Other O&M Expenses

The **Non-maintenance Budget Template** will be available on July 11th to assist you in building your budgets.

## Budget 2014 Instructions Nalcor Group of Companies

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### System Equipment and Maintenance (SEM)

System Equipment and Maintenance includes such items as Materials, Contract Labour, Tools & Operating Supplies, etc. These costs should be budgeted based on planned activity levels.

### Travel Costs

Travel costs include meals, accommodations, per diems, airline ticket, etc. Please estimate your travel costs and be prepared to support your budget with detail and cost estimates used to derive the overall costs.

### Conferences

The budget for conferences should only include the registration fee. All other cost should be budgeted with travel. Please be prepared to support the funding proposal with details such as conferences names, dates, fees etc.

### Other expenses

All other expenses should be based on planned activity levels.

- Municipal tax - will be budgeted by Rates and Regulatory.
- Payroll tax - will be budgeted by [REDACTED]
- Insurance - will be budgeted by Risk and Insurance
- Cost recoveries include the following:
  - IOC Cost Recovery will be budgeted by Regulated Hydro
  - CDM deferrals will be budgeted by Corporate Communications
  - Administration fee, Fixed Charge & Audit fees will be budgeted by Corporate
  - External recoveries will be budgeted by the applicable BU as required

## 2.6 Operating Projects

Operating Projects will be budgeted using the **Main Activity Template** in Clarity. For any new projects, an **Operating Project Form** will need to be submitted to Corporate in order to set up the Operating Project number.

## Budget 2015 Instructions Nalcor Group of Companies

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### 1.0 Overview

#### 1.1 Introduction

The guidelines for 2015 budget preparation are outlined below. The annual budget process provides the opportunity for a comprehensive, strategic and operational review. The output of the process is the financial budget for the coming year and will be used in communications with our Board of Directors, various financial institutions, and the provincial government. *It is therefore important that you consider all known factors (such as various cost drivers and activities) in creating an accurate budget and provide sufficient detail to support your estimates.*

Support for all costs should be available; however, all costs above 2.5% escalation over the August 2014 forecast will be specifically highlighted during the review process. Where possible, costs should be maintained within an overall increase of 2.5% or less.

#### 1.2 Highlights

- The following Clarity templates will be used to facilitate the budget process:
  - Salary Budget Template (Perm and Temp)
  - Professional Services & Training Template (various cost types available in the template)
  - Main Activity Template
  - Non-Maintenance Budget Template

#### 1.3 Summary of Key Dates

Date	Requirement
<b>June 16th</b>	Main Activity Template, Non-maintenance Budget Template, & the Professional Services & Training Template available
<b>August 8th</b>	Salary Budget Template available
<b>September 1st</b>	Salary budget completed
<b>September 12th</b>	Main Activity Template, Non-maintenance Budget Template, & the Professional Services & Training Template completed
<b>Sep 24 – Sep 26th</b>	Budget review with General Manager of Finance (Nalcor, NL Hydro, LCP) & Corporate Services
<b>October 10th</b>	Line of Business (LOB) Budget Deck submitted to Finance
<b>Oct 20th - Oct 22nd</b>	Budget presentation with CEO
<b>November 14th</b>	Budget package for the Board of Directors completed

#### 1.4 Budget Contacts

**Budget 2015 Instructions**  
**Nalcor Group of Companies**

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Questions on the 2015 budget process or these instructions can be directed to [REDACTED]

- 1.5 Budget Timetable - **Appendix A**
- 1.6 Budget Requirements - **Appendix B**



**Budget 2015 Instructions**  
**Nalcor Group of Companies**

**APPENDIX A**

**BUDGET TIMETABLE**

<b>Date</b>	<b>Activity</b>	<b>Responsibility</b>
<b>O&amp;M</b>		
June 16	Main Activity Template, Non-maintenance Budget Template, & the Professional Services & Training Template available	Corporate
Sep 12	Main Activity Template, Non-maintenance Budget Template, & the Professional Services & Training Template completed	BU Managers, Site Service Administrators, LOB Controllers
<b>Salaries</b>		
Aug 8	Salary Budget Template available	Corporate
Sep 1	Salary templates completed	BU Managers & Site Service Administrators, LOB Controllers
<b>Budget reviews with General Manager</b>		
Sep 24	BAF / Energy Marketing / Oil & Gas	Corporate, GM of Finance (Nalcor, NL Hydro & LCP), VP
Sep 25	Hydro / LCP	Corporate, GM of Finance (Nalcor, NL Hydro & LCP), VP
Sep 26	Churchill Falls / Twin Falls / Nalcor	Corporate, GM of Finance (Nalcor, NL Hydro & LCP), VP
<b>Budget Package</b>		
Oct 10	Financial Statements by LOB	LOB Controllers
Oct 10	Budget Package submitted to Finance	LOB Controllers
<b>Consolidated Package</b>		
Oct 13	Consolidated Financial Statements	Corporate
Oct 15	Consolidated budget package for CEO review	Corporate
<b>Budget reviews with CEO</b>		
Oct 20	BAF / Energy Marketing / Oil & Gas	Corporate, CEO, CFO, VP
Oct 21	Hydro / LCP	Corporate, CEO, CFO, VP
Oct 22	Churchill Falls	Corporate, CEO, CFO, VP
Oct 23	Nalcor	Corporate, CEO, CFO, VP
<b>Budget Package</b>		
Nov 14	Budget package for BOD	Corporate
<b>JDE Update</b>		
Weekly	Budget copied from Clarity to JDE (Ledger Type Budget 2015 V1) every Monday morning from June 30th – Sep 29th.	Corporate

**Budget 2015 Instructions**  
**Nalcor Group of Companies**

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**APPENDIX B**

**2.0 BUDGET REQUIREMENTS**

**2.1 O&M Forecast - 2014**

Please ensure your August 2014 forecast reflects your best estimate of the annual costs, as this number will be used in the variance calculations as presented to senior management and the Board of Directors.

Any references to the 2014 forecast as a comparative figure will include the actual results for the eight months ended August 31, 2014 plus the forecast for the remaining four months of 2014.

**2.2 Salaries**

**a) Full Time Permanent and Temporary Salaries**

The **Salary Budget Template** will be available on August 8th to assist you in building your budget.

Salaries will be budgeted in two categories, full time permanent and temporaries with separate accounts used to capture each.

*Full time permanent staff* for the current year will be listed within the template. Any new positions not indicated must be added to the bottom of the template and any positions not required should be removed. To remove a position, the hours associated must be zeroed out.

*Temporary staff* from the prior year will be listed within the template by position. The hours for these positions must be added to reflect current year data. In addition, any new temporary positions must be added to the bottom of the template.

**b) Fringe Benefits, Group Insurance, Employee Future Benefits and Vacancies**

Fringe Benefits, Group Insurance, Employee Future Benefits and Vacancies (where applicable) will be calculated based on information entered into your **Salary Budget Template**.

- *Balances within Employee Future Benefits will vary based on certain market conditions such as interest rates and are therefore, subject to material fluctuations.*

## Budget 2015 Instructions Nalcor Group of Companies

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### c) Recharged salaries

These areas will be budgeted based on Budget 2014 activity, with the salary dollars updated to reflect 2015 salary projections. The following accounts will be escalated:

- i. Intracompany salaries (within a LOB)
  - a. Labour in (6035)
  - b. Labour (out) (6036)
- ii. Capital labour (out) (6045)

### Intracompany Operating Projects

Salaries charged *within* a LOB through operating projects should be completed using the **Main Activity Template**, as was done in previous years. This template is currently available within Clarity to assist you in building your budget.

Please note that when the labor recharge is budgeted for 2015 based on the Budget 2014 activity, the following accounts will also be budgeted:

Overtime Out (6041)  
Capital Overtime Out (6046)

You should ensure that your Overtime (6020) budget covers the overtime labor that has been budgeted to be charged out in addition to the overtime required to stay in your business unit.

## 2.3 Professional Services & Training

### 1. Professional Services & Training

As in the prior year, the **Professional Services & Training Budget Template** can be used to assist you in building your budget in the following areas:

- Consultants
- Legal
- PUB related costs
- Software, Acquisition and Maintenance
- Training
- Trustee
- Grocery Store Management Fee
- Emera Optimization

## Budget 2015 Instructions Nalcor Group of Companies

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Training costs

### *Hydro*

The training budget for Hydro is administered by Human Resources. The budget for Training should only include training registration or course fees and will be consolidated by and included in HR budgets. All travel associated with training must be budgeted in travel (6505) of the originating department.

If you have any questions, please contact [REDACTED], HR Coordinator – Talent Management [REDACTED], for her support.

### *All other entities*

Please budget training requirements for all other entities in your respective business units.

## 2.4 All Other O&M Expenses

The **Non-maintenance Budget Template** is currently available and to assist you in building your budgets.

### System Equipment Maintenance

System Equipment Maintenance includes such items as Materials, Contract Labour, Tools & Operating Supplies, etc. These costs should be budgeted based on planned activity levels.

### Travel Costs

Travel costs include meals, accommodations, per diems, airline ticket, etc. Please estimate your travel costs and be prepared to support your budget with detail and cost estimates used to derive the overall costs.

### Conferences

The budget for conferences should only include the registration fee. All other cost should be budgeted with travel. Please be prepared to support the funding proposal with details such as conferences names, dates, fees etc.

## 2.5 Operating Projects

Operating Projects will be budgeted using the **Main Activity Template** in Clarity. All activity in relation to operating projects has been zeroed out within this template and requires your input. For any new projects, an **Operating Project Form** will need to be submitted to Corporate in order to set up the Operating Project number.

## THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

<b>POLICY SECTION</b>	<b>1900 – Public Utilities</b>	<b>POLICY NUMBER</b>	<b>1900.6</b>
<b>TITLE: Capital Budget Application Guidelines</b>		<b>PAGE</b>	<b>1 of 11</b>
<b>DATE ISSUED: June 2, 2005 (Provisional)</b>		<b>REVISION DATE: October 2007</b>	

This policy is designed to provide direction as to general administrative process utilized in the handling of Capital Budget Application filings made to the Board

### Table of Contents

<b>I</b>	<b>TABLE OF CONTENTS</b>	<b>1 of 11</b>
<b>II</b>	<b>GENERAL</b>	<b>2 of 11</b>
<b>III</b>	<b>LEGISLATION</b>	<b>2 of 11</b>
<b>IV</b>	<b>POLICY STATEMENT</b>	<b>2 of 11</b>
<b>V</b>	<b>PURPOSE</b>	<b>2 of 11</b>
	<b>POLICY</b>	<b>2 of 11</b>
<b>A.</b>	<b><u>Annual Capital Budget</u></b>	<b>2 of 11</b>
	<b>1. Application Schedule</b>	<b>2 of 11</b>
	<b>2. Application Format</b>	<b>4 of 11</b>
	<b>a) <u>Step 1- Defining Capital Expenditures</u></b>	<b>4 of 11</b>
	i. Clustered Expenditures	4 of 11
	ii. Pooled Expenditures	5 of 11
	iii. Other Expenditures	5 of 11
	<b>b) <u>Step 2 – Classifying Capital Expenditures</u></b>	<b>5 of 11</b>
	i. Mandatory	5 of 11
	ii. Normal Capital	6 of 11
	iii. Justifiable Expenditures	6 of 11
	<b>c) <u>Step 3- Segmenting by Materiality</u></b>	<b>6 of 11</b>
	i. Purchases and Improvements	6 of 11
	ii. Capital Leases	8 of 11
	<b>3. General</b>	<b>8 of 11</b>
	a) Multi-year Expenditures	8 of 11
	b) Technical Conference	8 of 11
	c) Site Visit	9 of 11
<b>B.</b>	<b><u>Supplemental Capital Budget Expenditures</u></b>	<b>9 of 11</b>
	<b>1. Application for Approval of Supplemental Capital Expenditures</b>	<b>9 of 11</b>
	<b>2. Allowance for Unforeseen Items</b>	<b>9 of 11</b>
<b>C.</b>	<b><u>General</u></b>	<b>10 of 11</b>
	<b>1. Capital Expenditures Report</b>	<b>10 of 11</b>
	<b>2. Related Applications</b>	<b>11 of 11</b>
	a) Abandonment of Plant	11 of 11
	b) Contributions In Aid of Construction	11 of 11

## THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

<b>POLICY SECTION</b>	<b>1900 – Public Utilities</b>	<b>POLICY NUMBER</b>	<b>1900.6</b>
<b>TITLE: Capital Budget Application Guidelines</b>		<b>PAGE</b>	<b>2 of 11</b>
<b>DATE ISSUED: June 2, 2005 (Provisional)</b>		<b>REVISION DATE: October 2007</b>	

### I. GENERAL

This policy applies to capital budget applications filed with the Board pursuant to Section 41 of the *Public Utilities Act* for approval of the annual capital budget or supplementary capital expenditures of a utility. This policy provides directions on process and timing and highlights specific information and other requirements which are part of the approval process.

### II. LEGISLATION

- A. Public Utilities Act**, R.S.N.L. 1990, c. P-47, in particular section 41.
- B. Electrical Power Control Act, 1994**, R.S.N.L. 1994, c. E-5.1, in particular section 3.

### III. POLICY STATEMENT

In fulfilling its mandate with respect to the supervision of the capital expenditures of a utility the Board balances the interests of consumers and the utility in the context of the applicable legislative provisions. In balancing these interests the Board is committed to the efficient and effective review and approval of expenditures in keeping with the provision of least cost reliable service.

### IV. PURPOSE

The purpose of this policy is to provide clarity and consistency in the submission of capital expenditures by a utility, while ensuring transparent and fair oversight by the Board. The policy sets out the format, process, schedule and obligations of the utility and participating parties.

### V. POLICY

#### **A. ANNUAL CAPITAL BUDGET**

##### **1. Application Schedule**

The filing date for the annual capital budget application for each utility shall be set out by the Board from time to time (currently July 15 for Newfoundland Power and August 1 for Newfoundland and Labrador Hydro). Upon receipt of an application the Board will set a schedule of dates certain based on the schedule below.



## THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

<b>POLICY SECTION</b>	<b>1900 – Public Utilities</b>	<b>POLICY NUMBER</b>	<b>1900.6</b>
<b>TITLE: Capital Budget Application Guidelines</b>		<b>PAGE</b>	<b>3 of 11</b>
<b>DATE ISSUED: June 2, 2005 (Provisional)</b>		<b>REVISION DATE: October 2007</b>	

<b>ACTION</b>	<b>NP</b>	<b>NLH</b>
Application filed with supporting evidence and copied to interested persons	July 15	August 1
Notice published	July 22	August 8
Intervenor Submissions filed	August 2	August 19
i) RFIs filed ii) Request for technical conference made	August 5	August 22
Replies to RFIs	August 19	September 6
Target date for technical conference to be held	August 26	September 13
i) Intervenor evidence filed ii) RFIs arising from Technical Conference filed iii) Request for a hearing filed	August 30	September 17
i) RFIs on Intervenor Evidence ii) Notice if Hearing will be held	September 4	September 21
i) Replies to RFIs on Intervenor Evidence ii) Replies to RFIs arising from the Technical Conference	September 11	September 28
Hearing, or if no hearing written submissions must be filed	September 30	October 15
Decision	November 15	December 1

## THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

<b>POLICY SECTION</b>	<b>1900 – Public Utilities</b>	<b>POLICY NUMBER</b>	<b>1900.6</b>
<b>TITLE: Capital Budget Application Guidelines</b>		<b>PAGE</b>	<b>4 of 11</b>
<b>DATE ISSUED: June 2, 2005 (Provisional)</b>		<b>REVISION DATE: October 2007</b>	

### 2. Application Format

A utility shall present its annual capital budget with sufficient detail for the Board and interested parties to understand the nature, scope and justification for Individual expenditures and the capital budget overall. Each expenditure will be presented in the following manner:

- a) Step 1 Define the capital expenditure.
- b) Step 2 Classify the capital expenditure.
- c) Step 3 Segment by materiality.

#### a) Step 1 Defining Capital Expenditures

Capital expenditures are to be defined as one of the following:

- i. Clustered;
- ii. Pooled; or
- iii. Other.

#### i. Clustered Expenditures

**Definition** Clustered expenditures are those which would logically be undertaken together. Clustered expenditures are to be divided between items that are "inter-dependent" and those which are "related".

1. Inter-dependent items - those which are necessarily linked to each other, such that the repair, replacement or acquisition of one item necessarily triggers the repair, replacement or acquisition of another item.
2. Related items - those which, although not necessarily linked to the repair, replacement or acquisition of another item, are nonetheless, logically undertaken together.

#### Supporting Information

For Clustered Expenditures, in addition to the information required as set out below in **Classifying Capital Expenditures**, the utility will have to show:

1. Why the series of expenditures should logically be undertaken together.
2. Which components of the expenditures are considered to be:
  - a. Inter-dependent; and
  - b. Related only.
3. A breakdown in costs and, where appropriate, separate costing for the series of inter-dependent items and the series of related items.



## THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

<b>POLICY SECTION</b>	<b>1900 – Public Utilities</b>	<b>POLICY NUMBER</b>	<b>1900.6</b>
<b>TITLE: Capital Budget Application Guidelines</b>		<b>PAGE</b>	<b>5 of 11</b>
<b>DATE ISSUED: June 2, 2005 (Provisional)</b>		<b>REVISION DATE: October 2007</b>	

### ii. Pooled Expenditures

**Definition** A series of expenditures which are neither inter-dependent nor related but which nonetheless are logically grouped together.

#### Supporting Information

1. For pooled expenditures, in addition to the information required as set out below in **Classifying Capital Expenditures**, the utility will have to provide unit or aggregate costing data, as appropriate.
2. Clear parameters for the pool must be set out showing amounts in relation to identified anticipated projects and amounts for expenditures anticipated based on historical spending or other forecasting. For example, in the case of Distribution and Extensions the information should set out the significant amounts for known geographic locations of growth (i.e. a particular cottage area which is being developed) as well as the amount which is anticipated based on general forecasting.

### iii. Other Expenditures

**Definition** Expenditures which do not fit the definition of Clustered or Pooled.

#### Supporting Information

No specific additional information is required. See **Classifying Capital Expenditures** below for the general information requirements.

### b) Step 2 Classifying Capital Expenditures

Once an expenditure is defined as Clustered, Pooled or Other, the utility will apply the Classification Scheme, identifying the expenditure as either:

- i. Mandatory;
- ii. Normal Capital; or
- iii. Justifiable

#### i. Mandatory

**Definition** A Capital expenditure which the utility is obliged to carry out as a result of:

1. Legislation,
2. Board Order,
3. Safety issues, or
4. Risk to the environment.

## THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

<b>POLICY SECTION</b>	<b>1900 – Public Utilities</b>	<b>POLICY NUMBER</b>	<b>1900.6</b>
<b>TITLE: Capital Budget Application Guidelines</b>		<b>PAGE</b>	<b>6 of 11</b>
<b>DATE ISSUED: June 2, 2005 (Provisional)</b>		<b>REVISION DATE: October 2007</b>	

### Supporting Information

In relation to mandatory expenditures a utility must show:

1. On what basis the expenditure is mandatory;
2. All reasonable alternatives, where available, and the reasons this particular alternative was chosen; and
3. Whether the proposed expenditure is the least cost reasonable alternative and if not why it was chosen.

### ii. Normal Capital

**Definition** A capital expenditure that is required based on identified need or on historical patterns of repair and replacement.

### Supporting Information

In relation to normal capital expenditures a utility must show, where appropriate:

1. There is evidence of the need, ie. historical spending patterns, maintenance history, reliability data, growth;
2. All reasonable alternatives, including deferral, have been considered;
3. The expenditure as proposed is the least cost option;
4. Unit and/or aggregate cost data including, where available, similar costs for the preceding five (5) years; and
5. Net Present Value (NPV).

### iii. Justifiable Expenditures

**Definition** Expenditures which are justified based on the positive impact the project will have on the utility's operations.

### Supporting Information

In relation to justifiable expenditures a utility must show:

1. All reasonable alternatives, including deferral, have been considered; and
2. The expenditure will provide tangible benefits to ratepayers, such as information showing a positive NPV, or the proposed resolution to an identified deficiency.

## c. Step 3 Segmenting by Materiality

### i. Purchases & Improvements

Capital expenditures should be segmented by their materiality as follows:

1. Expenditures under \$200,000
2. Expenditures between \$200,000 and \$500,000
3. Expenditures over \$500,000



## THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

<b>POLICY SECTION</b>	<b>1900 – Public Utilities</b>	<b>POLICY NUMBER</b>	<b>1900.6</b>
<b>TITLE: Capital Budget Application Guidelines</b>		<b>PAGE</b>	<b>7 of 11</b>
<b>DATE ISSUED: June 2, 2005 (Provislonal)</b>		<b>REVISION DATE: October 2007</b>	

### 1. Expenditures under \$200,000

Expenditures under \$200,000 will be supported with evidence showing that the expenditure is prudent and necessary to provide reasonably safe, adequate, just and reasonable service. These expenditures will be considered based on the written record filed, including the utility's application, any relevant RFIs and replies, other evidence and written submissions.

### 2. Expenditures between \$200,000 and \$500,000

Expenditures of this amount will be supported with evidence showing that the expenditure is prudent, or necessary to provide reasonably safe, adequate, just and reasonable service. The utility will be expected to provide the following information where appropriate and when available:

- o Age of equipment or system
- o Major work/upgrades completed since installation/implementation
- o Anticipated useful life
- o Summary of maintenance records
- o Summary of outage statistics
- o Relevant industry experience
- o What maintenance/support arrangements available (internal and external)
- o Vendor recommendations
- o Availability of replacement parts
- o Safety performance (if relevant)
- o Environmental performance (if relevant)
- o Operating regime (continuous, cyclic, standby, etc.)
- o Net Present Value NPV calculation
- o Levelized cost of energy
- o Cost benefit analysis
- o Other legislative or regulatory compliance requirements
- o Historical average and/or unit cost information
- o Forecast customer growth estimate
- o Energy efficiency benefits
- o Losses incurred during construction
- o Anticipated consequences of maintaining the status quo
- o Any other alternatives considered
- o Description of proposed solution
- o Budget estimate
- o Project schedule
- o Detailed report/analysis of condition (if available).

Expenditures between \$200,000 and \$500,000 would be normally considered based on the written record filed, including the application, any relevant RFIs and replies, other evidence and written submissions. These expenditures may be challenged during a hearing if the Board, on its own motion or upon receiving a request from an Intervenor, determines that an oral hearing is necessary to properly assess whether the expenditure should be approved.

## THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

<b>POLICY SECTION</b>	<b>1900 – Public Utilities</b>	<b>POLICY NUMBER</b>	<b>1900.6</b>
<b>TITLE: Capital Budget Application Guidelines</b>		<b>PAGE</b>	<b>8 of 11</b>
<b>DATE ISSUED: June 2, 2005 (Provisional)</b>		<b>REVISION DATE: October 2007</b>	

### 3. Expenditures in excess of \$500,000

Expenditures of this amount are considered significant expenditures which must be supported with more comprehensive and detailed documentation than other expenditures. It is expected that all the items in the checklist will be addressed with either the information provided or an explanation of why it is not appropriate in the circumstances. Where appropriate, a utility is expected to provide a report/analysis by a qualified engineer or other appropriate expert in support of the expenditure.

Expenditures in excess of \$500,000 are open to review at a hearing if it is determined by the Board, upon request or on its own motion, that the expenditure should be reviewed in an oral hearing.

#### ii. Capital Leases

##### Annual lease amount less than \$20,000

Capital leases proposed to start in the year and involving an annual expenditure less than \$20,000 would be reviewed and generally approved based on the written record.

##### Annual lease amount equal to or in excess of \$20,000

Capital leases proposed to start in the year and involving an annual expenditure equal to or greater than \$20,000 would be open to review at a hearing, if it is determined by the Board, upon request or on its own motion, that the lease should be reviewed in an oral hearing.

### 3. General

#### a. Lease or Purchase Option

Where it is appropriate at the time of making the application to maintain the option to purchase or lease a capital item, a utility may seek the approval of the Board for an expenditure on the basis that it may proceed either by way of a purchase or a lease. In this case, in addition to the usual information required, the utility will advise the Board as to the lease and purchase options that are available in relation to the capital expenditure at the time of the application and seek the approval of the Board to proceed with the capital item either by way of lease or purchase, depending on the NPV. The utility shall advise in the subsequent capital expenditures report as to the approach that was taken and the NPV justification.

#### b. Multi-year Expenditures

Each year of a expenditure will be considered in the initial year of application. Where a utility shows in each subsequent year of a multi-year expenditure that the scope, nature and amount of the capital expenditures are consistent with the original approval, further approval is not required.

Expenditures in subsequent years will be subject to further review if there is a material change in the scope, nature or forecast cost of the expenditure. A change will be considered material if the nature or scope of the expenditure changes such that that original rationale provided is no longer applicable or where the revised forecast expenditure exceeds the approved amount by 10% or more.



## THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

<b>POLICY SECTION</b>	<b>1900 – Public Utilities</b>	<b>POLICY NUMBER</b>	<b>1900.6</b>
<b>TITLE: Capital Budget Application Guidelines</b>		<b>PAGE</b>	<b>9 of 11</b>
<b>DATE ISSUED: June 2, 2005 (Provisional)</b>		<b>REVISION DATE: October 2007</b>	

### c. Technical Conference

Where appropriate, a utility may conduct a technical conference.

A technical conference will be used in concert with the RFI process to gain a full understanding of the scope and nature of the proposed projects and will most often involve the participation of Board staff. To the extent that relevant information is brought forward at the technical conference, it will not be available for the consideration of the panel unless it is entered on the record through the RFI process or in the evidence of a witness. The technical conference will generally not be recorded and the information provided will not be part of the record.

Where the parties agree and the Board determines that it would be of assistance, the Commissioners of the Board hearing the application may participate in the presentation portion of the technical conference. Where the Commissioners participate the technical conference shall be transcribed or, in the alternative with the agreement of the parties, the utility shall file as part of the record a written copy of the substance of the presentation which shall be reflective of the presentation and may be referred to in the decision making of the Board. After the presentation the Commissioners may ask questions but generally will not be present during the discussion/questions of the other participants.

### d. Site Visit

In appropriate circumstances a utility may provide a site visit. These visits will be organized by the utility where practical in the context of a request in writing from the Board or an Intervenor. Where the parties agree and the Board determines that it is reasonably necessary, the Commissioners of the Board hearing the application may participate in the site visit. All Commissioners hearing the application will participate together.

## **B. Supplemental Capital Expenditures**

### **1. Application for Approval of Supplemental Capital Budget Expenditures**

Where a utility determines that a capital expenditure which was not anticipated and included in the annual capital budget is necessary in the year and should not be delayed until the following year it may make an application for approval of a supplemental capital expenditure in the year. In the case of a pooled amount supplemental capital approval will be necessary where the additional expenditure was not included as an anticipated identified expenditure and is beyond the scope of the items contemplated in the general forecast amount.

Where a utility identifies a necessary capital expenditure which is supplemental to the annual capital budget and which does not satisfy the requirements to be included in the Allowance for Unforeseen Items it may apply to the Board for approval of a supplemental capital expenditure. This application must be supported with appropriate evidence and analysis similar to the format and requirements in relation to expenditures which were part of the annual capital budget. In addition, the utility will provide evidence as to:

- i) why the project was not anticipated and included in the annual capital budget application for the year; and
- ii) why the project cannot wait until next year and be included in the annual capital budget application.

## THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

<b>POLICY SECTION</b>	<b>1900 – Public Utilities</b>	<b>POLICY NUMBER</b>	<b>1900.6</b>
<b>TITLE: Capital Budget Application Guidelines</b>		<b>PAGE</b>	<b>10 of 11</b>
<b>DATE ISSUED: June 2, 2005 (Provisional)</b>		<b>REVISION DATE: October 2007</b>	

When making an application for approval of a supplemental capital expenditure a utility need not apply for approval of an increase to the total annual capital budget. For regulatory purposes the approved annual capital budget would generally not be expected to change with subsequent approvals of supplementary capital expenditures. However, it may be necessary to apply for changes to the previously approved annual capital budget where those supplemental projects replace or otherwise relate to an expenditure included in the approved annual capital budget.

### 2. Allowance for Unforeseen Items

Where it is impractical to make application to the Board for approval of a supplemental capital expenditure, a utility may proceed with the expenditure using the Allowance for Unforeseen Items account. The purpose of this account is to permit the utility to act expeditiously to deal with events affecting the electrical system which cannot wait for the specific approval of the Board. The expenditure must be so urgent that any delay would have serious negative consequences. The utility must be able to show that a delay was not possible in the circumstances.

The amount of the Allowance for Unforeseen Items account is established for each utility in the annual capital budget process. Where significant expenditures have been made in the year using the allowance for Unforeseen Items Account the balance in the account may be eroded. A utility may file an application for supplemental approval of an additional amount in the Allowance for Unforeseen Items Account. If an application is made for approval of a supplementary allowance the utility will have to show that the usage to date of the account was consistent with this policy.

Before proceeding with work using the Allowance for Unforeseen Items account, or as soon as practical thereafter, the utility must notify the Board in writing that it intends to proceed with an expenditure greater than \$50,000 without the approval of the Board using the Allowance for Unforeseen Items account. This notice must set out the detailed circumstances, including the justification for the expenditure and the reason for the use of the Allowance for Unforeseen Items account, providing to the extent available at the time, a scope and costing for the expenditure.

Within 30 days after the completion of the work the utility shall file a detailed report setting out:

- i) the circumstances of the expenditure;
- ii) any reliability or safety issues;
- iii) why the work was not anticipated in the annual capital budget;
- iv) the alternatives considered;
- v) the financial effects of each alternative and the reasons for the chosen alternative;
- vi) a timeline setting out all relevant dates;
- vii) the nature and scope of the work;
- viii) the detailed costs incurred; and
- ix) any other implications for other aspects of the utility business/system.

A summary report detailing the use of the Allowance for Unforeseen Items account shall be filed with each annual capital expenditure report.



## THE BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

<b>POLICY SECTION</b>	<b>1900 – Public Utilities</b>	<b>POLICY NUMBER</b>	<b>1900.6</b>
<b>TITLE: Capital Budget Application Guidelines</b>		<b>PAGE</b>	<b>11 of 11</b>
<b>DATE ISSUED: June 2, 2005 (Provisional)</b>		<b>REVISION DATE: October 2007</b>	

### **C. GENERAL**

#### **1. Capital Expenditures Report**

A utility must file a report by March 1 of each year on the annual capital expenditures to December 31 of the previous year. This report will include a detailed explanation of each actual expenditure variance from the approved expenditures which variance is more than both \$100,000 and 10%. The utility will provide a full explanation of the reason for the variance setting out any change in the scope of the project together with confirmation that the expenditure remains least cost and, where originally approved based on a NPV calculation, that the NPV has not been materially affected. This report should include a thorough explanation of all of the components that caused the actual total capital expenditures in any year to exceed the budgeted total capital expenditures by more than \$100,000 or 10%. This report should also set out a summary in table or graph format of these variances both on a dollar and percentage basis for each of the last ten years. Should the overall variance in any two years exceed 10% of the budgeted total the report should address whether there should be changes to the forecasting or capital budgeting process which should be considered. In addition a utility must file with each general rate application each of the annual reports filed since the last general rate application.

#### **2. Related Applications**

##### **a. Abandonment of Plant**

If a capital expenditure is related to the abandonment of plant requiring approval of the Board under section 38, the application for abandonment of plant and the application for approval of capital expenditures should be made together.

##### **b. Contributions In Aid of Construction**

If there is a contribution in aid of construction associated with a supplemental capital expenditure application the two applications should be filed together.

