

1 Q. **Reference: Application, 2023 Capital Budget Overview, page 21**

2 It is stated “To determine the accuracy range of Hydro’s capital estimates, Hydro completed  
3 statistical analysis of project variances based on available data for projects proposed and  
4 completed since 2013. Hydro’s analysis has determined that its average variance is -6%, with a  
5 standard deviation of approximately +/-38%. Therefore, Hydro’s expected estimate accuracy  
6 range is approximately +30%/-40%.”

7 a) Is this methodology consistent with the requirements set out in the Provisional Capital  
8 Budget Application Guidelines?

9 b) Does a +30%/-40% accuracy range reflect industry best practice?

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12 A. a) The provisional Capital Budget Application Guidelines do not provide direction on the  
13 methodology to be utilized in determining estimate accuracy.

14 b) The upper range (+30%) of Newfoundland and Labrador Hydro’s (“Hydro”) estimate  
15 accuracy range is consistent the American Association for Advancement of Cost Engineering  
16 (“AACE”) Class 3 estimate, which is the degree of accuracy typically required for budgetary  
17 authorization or control. The lower range of Hydro’s estimate accuracy range (-40%), is  
18 within the range of accuracy expected for an AACE Class 5 estimate, which is the degree of  
19 accuracy typically required for concept screening. Hydro notes that on average, Hydro’s  
20 aggregate annual capital budget estimates are accurate to within 10%. In determining  
21 whether improvements in estimating accuracy are warranted, one must consider the value  
22 provided by improving estimate accuracy, and the cost of such improvements. Given the  
23 accuracy of Hydro’s aggregate total capital budget estimates, Hydro does not believe that  
24 additional costs associated with improvement of estimating accuracy are warranted at this  
25 time. For capital investments with high materiality, such as Hydro’s supplemental capital

- 1 budget application for the Long-Term Supply for Southern Labrador,<sup>1</sup> Hydro engages
- 2 external consultants to develop AACE Class 3 estimates.<sup>2</sup>

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<sup>1</sup> "Long-Term Supply for Southern Labrador – Phase I," Newfoundland and Labrador Hydro, July 16, 2021.

<sup>2</sup> AACE Class 3 estimates have a low expected actual cost of -20% to -10%, and a high expected actual cost of +10% to +30%.