

1 Q. **Reference: Application, 2022 Capital Expenditures Overview, Appendix A**

2 Of 17 projects/programs in 2022, 13 have variances between the Board-approved budget  
3 amounts and the total budget expenditures and forecast. It is understood that the variances are  
4 in part owing to supply chain issues and inflation. On the other hand, Newfoundland Power  
5 shows 2022 capital expenditure variances in only 1 of 11 projects/programs (see Newfoundland  
6 Power 2023 Capital Budget Application, 2022 Capital Expenditure Status Report). Why is  
7 Newfoundland Power so much more proficient in dealing with supply chain and inflation issues  
8 than Hydro? Has Hydro contacted Newfoundland Power in an effort to gain insights on how it  
9 can be more effective at managing supply chain issues and very high levels of inflation?

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12 The table on page A-1 of the 2022 Capital Expenditures Overview, Appendix A<sup>1</sup> shows forecasted  
13 total project cost variances against Board of Commissioners of Public Utilities (“Board”)  
14 approved budget for all capital projects in progress in 2022, summarized by asset type. The table  
15 is repeated below with an additional column showing the percentage of each variance. At this  
16 summary level, there are forecasted total project cost variances for 13 of the 17 asset types, 3 of  
17 which are greater than 10%. These forecasted variances are based on focused management and  
18 re-forecasting efforts and are subject to change throughout the year as the projects proceed.  
19 Actual variances at the completion of each project will be discussed in the Capital Expenditures  
20 and Carryover Reports<sup>2</sup> when annual expenditures are final.

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<sup>1</sup> “2023 Capital Budget Application,” Newfoundland and Labrador Hydro, July 13, 2022, vol. I, sch. 1, app. A, p. A-1.

<sup>2</sup> As per *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 37(2021), Board of Commissioners of Public Utilities, December 20, 2021, p. 3/35–36 Hydro’s 2022 Capital Expenditures and Carryover Report is to be filed by March 1, 2023.

**Total Capital Project Variance<sup>3</sup>**  
**2022 Overview**  
**(\$000)**

Asset Type	Board- Approved Budget <b>(A)</b>	Total Project Expenditures and Forecast <b>(B)</b>	Variance <b>(C)</b>	Variance Percentage
Hydraulic	49,972	52,986	3,014	6%
Thermal	15,191	16,379	1,188	8%
Gas Turbines	19,627	15,503	(4,124)	-21%
Terminal Stations	114,236	100,956	(13,280)	-12%
Transmission	21,582	23,439	1,857	9%
Distribution	14,040	14,038	(2)	0%
Rural Generation	19,986	19,824	(161)	-1%
Properties	-	-	-	-
Metering	5,376	5,876	500	9%
Rural Systems Tools and Equipment	3,807	3,807	-	0%
Information Systems	3,792	3,741	(51)	-1%
Telecontrol	912	912	-	0%
Transportation	9,647	10,207	560	6%
Administrative	2,139	2,289	150	7%
Allowance for Unforeseen	1,402	3,450	2,048	146%
Supplemental Projects	26,480	26,994	514	2%
Projects Approved for less than \$50,000	72	72	-	0%

1           The Newfoundland Power Inc. (“Newfoundland Power”) table referenced is not directly  
2           comparable to Newfoundland and Labrador Hydro’s (“Hydro”) table above. Newfoundland  
3           Power’s table shows those variances for projects approved as part of their 2022 Capital Budget  
4           Application, whereas Hydro’s table shows variances for all projects in progress in 2022,  
5           regardless of the year of approval.

6           Supply chain issues and inflation are not a predominant factor in the 12 forecasted project  
7           variances reported by Hydro. Supply chain issues continue to be a risk to capital projects, but  
8           the impact is primarily on the timing of expenditures and not the total projects costs. Hydro’s  
9           forecasted variances are primarily associated with work being completed for less than the  
10          original budget estimates, partially offset by a higher extent of refurbishment work required on

<sup>3</sup> Numbers may not add due to rounding.

1 some generating units, determined following disassembly and condition assessment. Most of  
2 the variance associated with work being completed for less than the original budget estimates is  
3 for two projects continuing in 2022 that were estimated in 2017 and 2018. Hydro has made  
4 improvements to and continues to refine its estimating since that time resulting in better  
5 estimate accuracy.

6 The execution of Hydro's 2022 Capital Plan has been impacted by supply chain disruptions;  
7 however, Hydro continues to manage the overall impact of these disruptions with the majority  
8 of capital projects expected to be completed prior to year end.

9 Hydro has engaged in discussions with Newfoundland Power on global supply chain issues that  
10 are applicable to both utilities, for example cost escalations from vehicle manufacturers arising  
11 from the COVID-19 pandemic.