

1 Q. **Reference: Application, 2024 Capital Budget Overview, page 24**

2 It is stated

3 To determine the accuracy range of Hydro’s capital estimates, Hydro completed
4 statistical analysis of project variances based on available data for projects
5 proposed and completed since 2013. Hydro’s analysis has determined that its
6 average variance is -4%, with a standard deviation of approximately +/-38%.
7 Therefore, Hydro’s expected estimate accuracy range is approximately +30%/-
8 40%.

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

11 b) Does a +30%/-40% accuracy range reflect industry best practice? Does this range apply
12 to typical projects or the total spend?

13 c) Based on historical experience, has Hydro generally been within this accuracy range?
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16 A. a) The provisional Capital Budget Application Guidelines¹ do not provide direction on the
17 methodology to be utilized in determining estimate accuracy.

18 b) Newfoundland and Labrador Hydro’s (“Hydro”) stated estimate accuracy range applies on
19 an individual project basis. As Hydro has previously communicated,² the upper range (+30%)
20 of Hydro’s estimate accuracy range is consistent with the American Association for
21 Advancement of Cost Engineering (“AACE”) Class 3 estimate, which is the degree of accuracy
22 typically required for budgetary authorization or control. The lower range of Hydro’s
23 estimate accuracy range (-40%), is within the range of accuracy expected for an AACE Class 5
24 estimate, which is the degree of accuracy typically required for concept screening. Hydro
25 notes that on average, Hydro’s aggregate annual capital budget estimates are accurate to

¹ “Capital Budget Application Guidelines (Provisional),” Board of Commissioners of Public Utilities, January 2022.

² Please refer to Hydro’s response to CA-NLH-050 of Hydro’s 2023 Capital Budget Application proceeding.

1 within 10%. For capital investments with high materiality, Hydro may engage external
2 consultants to develop AACE Class 3 estimates.³

3 c) Yes, Hydro's capital project variances have generally been within this accuracy range; for
4 projects closed out between 2017 and 2022, 76% were completed within this range. Please
5 refer to Hydro's response to PUB-NLH-015 of this proceeding for further details on Hydro's
6 estimate accuracy and associated analysis.

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