

1 Q. **Reference: 2024 Capital Budget Application – Addendum – Capital Expenditures and Carryover**  
2 **Report for the Year Ended December 31, 2022, page 49, Table 3: 2022 Carryover Report for the**  
3 **Year Ending December 31, 2022 (\$000).**

4 Does Hydro anticipate that carryover work will continue to be compounded in future years? If  
5 not, please explain how Hydro will avoid future carryovers.

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8 A. Newfoundland and Labrador Hydro (“Hydro”) proposes projects and programs required to  
9 maintain safe, reliable, least-cost service to its customers, in an environmentally responsible  
10 manner. Hydro strives to execute all approved scopes of work when they are required and  
11 inevitably experiences some carryover of work each year. Hydro utilizes established project  
12 management practices and procedures to monitor, control, and manage this carryover. These  
13 practices and procedures incorporate continual improvement methodologies to ensure that  
14 lessons learned are captured and leveraged.

15 A portion of carryover work is strategic, in which Hydro has the ability to execute work in the  
16 originally planned year but intentionally carries over the work due to changes in the required  
17 timing of the project. Hydro utilizes an established project change management process to  
18 facilitate decisions when contemplating the strategic carryover of work. An example of work  
19 strategically carried over is the completion of upgrades at the Bottom Brook Terminal Stations  
20 associated with the future retirement of Stephenville Gas Turbine. As explained in Section 4.4.5  
21 of the 2022 Capital Expenditures and Carryover Report,<sup>1</sup> construction work was carried over  
22 from 2022 to 2023 to align with a decision to defer the decommissioning of the Stephenville Gas  
23 Turbine to 2024.

24 A portion of carryover is a result of external risk events for which Hydro has little or no control.  
25 An example is the delayed receipt of new light- and heavy-duty vehicles. As explained in

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<sup>1</sup> “Capital Expenditures and Carryover Report for the Year Ended December 31, 2022, Newfoundland and Labrador Hydro, March 31, 2023, filed with the Board of Commissioners of Public Utilities on July 19, 2023 as an Addendum to the “2024 Capital Budget Application,” Newfoundland and Labrador Hydro, rev. August 18, 2023 (originally filed July 12, 2023).

1 Sections 4.13.1 to 4.13.3 of the 2022 Capital Expenditures and Carryover Report, the delivery  
2 time for new vehicles increased significantly because of global supply chain challenges stemming  
3 from the COVID-19 pandemic.

4 A portion of carryover is a result of internal risk events such as challenges with scheduling  
5 internal resources and equipment outages to enable the work. An example of this is the delayed  
6 protection, control, and monitoring system upgrades in terminal stations. As explained in  
7 Section 4.4.3 of the 2022 Capital Expenditures and Carryover Report, a high volume of work  
8 across all projects for the technical resources required to complete the design and procurement  
9 led to a delay in a portion of the work scope.

10 As part of its annual work planning cycle, Hydro determines the risk associated with a one-year  
11 delay in completing each capital program and project work scope. This is completed in the early  
12 part of the calendar year before the busy construction season. This allows Hydro to minimize  
13 the risk of carryover if constraints prevent Hydro from executing all planned work. Hydro utilizes  
14 an established project change management process to identify the impacts of carryover and to  
15 develop temporary mitigation plans to reduce the impact, where possible, until the work can be  
16 completed. Should a delay in an in-service date of an asset create a material risk to reliability,  
17 this would be identified in both the Near Term Reliability Report<sup>2</sup> and Winter Readiness Planning  
18 Reports.<sup>3</sup> A significant portion of the 2022 carryover was due to engineering, procurement, and  
19 early construction activity within multi-year projects carrying into 2023 without impacting the  
20 original planned in-service date of the asset. As such, this type of carryover does not create a  
21 significant risk to the supply of electricity to customers. This is true regardless of the priority  
22 level of the project or program.

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<sup>2</sup> Hydro's Near-Term Reliability Reports, filed as part of the ongoing *Reliability and Resource Adequacy Study Review* proceeding, can be accessed at <<http://pub.nl.ca/applications/NLH2018ReliabilityAdequacy/index.php>>.

<sup>3</sup> Hydro's Winter Readiness Planning Reports can be access at <[http://pub.nl.ca/index\\_reports\\_winter\\_readiness.htm](http://pub.nl.ca/index_reports_winter_readiness.htm)>.

1 As summarized in Hydro’s 2022 Capital Expenditures Report,<sup>4</sup> Hydro completed an analysis of  
2 2022 capital expenditures and concluded that carryover of work to future years was the primary  
3 driver of 2022 under-expenditure. Three main themes related to carryover were identified:

- 4 1. Strategic deferral of work based on updated asset information, updated electrical  
5 system planning requirements or improved execution plans;
- 6 2. Supply chain challenges resulting in delays in receiving equipment; and
- 7 3. Delayed environmental assessment approvals.

8 Hydro continues to review its capital budget planning and execution methodologies and use its  
9 expenditures analysis to identify opportunities that may contribute to reduced capital  
10 expenditure variances in future years. Given that the primary driver of under-expenditure in  
11 2021 and 2022 was the carryover of work to future years, Hydro intends to continue scrutiny of  
12 its project schedules prior to the submission of project proposals, with an emphasis on  
13 confirming:

- 14 • That the planned in-service dates for projects align with best available asset condition  
15 and system planning information;
- 16 • That project schedules include adequate time for the regulatory review process;
- 17 • That project schedules include adequate time for the procurement of long-lead  
18 equipment; and
- 19 • That project schedules reflect a realistic level of procurement and construction activity  
20 in the first year of multi-year projects.

21 Hydro reviews the executability of work as a consideration in its annual capital planning process,  
22 including the impact of known carried-over work. However, due to the timing of the capital  
23 budget cycle, Hydro is generally not aware of most carryover of previously approved work at the  
24 time of preparation and filing of its annual capital budget application. Estimates are finalized in  
25 the first quarter of the year prior to execution, whereas the construction of previously approved  
26 work has yet to commence in most cases.

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<sup>4</sup> “Capital Expenditures and Carryover Report for the Year Ended December 31, 2022, Newfoundland and Labrador Hydro, March 31, 2023, sec. 5.0, pp. 44–48.

1 Hydro does not presently anticipate that carryover work will continue to compound in future  
2 years. Hydro’s experience is that the total carryover amount varies from year to year in an  
3 unpredictable manner consistent with the inherent randomness of risk events. Years with high  
4 carryover are not always followed by more years with high carryover, as can be seen in Chart 1.  
5 As part of a capital forecasting exercise completed in June 2023, Hydro identified likely  
6 carryover work into future years, estimated at \$12.7 million. This is tracking to experience less  
7 carryover into 2024 than realized into 2023, though Hydro acknowledges that this could change  
8 as the remainder of the year unfolds. Actual capital expenditures in 2023 to the end of August  
9 2023 are tracking in line with planned expenditures, with approximately 57% of the approved  
10 budget spent.

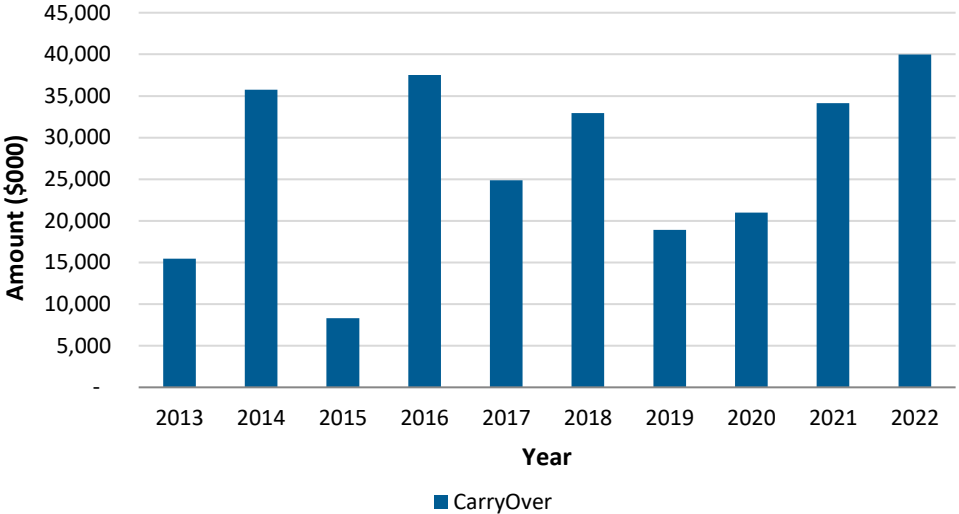


Chart 1: 2010–2022 Carryover