

1 Q. **Reference: Application, Carryover Report, page B-53.**

2 It is stated *“In 2023, Hydro carried over \$21.9 million of budget to future years.”* This compares
3 to the average carryover amount for the previous nine years (2014–2022) of \$28.2 million.

4 a) Does Hydro consider this to be an acceptable amount of carryover?

5 b) What actions are being taken by Hydro to eliminate, or reduce to a negligible amount,
6 the carryover?

7 c) When does Hydro expect to eliminate, or reduce to a negligible amount, its carryover
8 into future years?

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

18 A portion of carryover work is strategic, in which Hydro can execute work in the originally
19 planned year but intentionally carries over the work due to changes in the required timing
20 of the project. Hydro utilizes an established project change management process to
21 facilitate decisions when contemplating the strategic carryover of work. An example of work
22 strategically carried over is the program titled “Perform Combustor Inspection – Holyrood
23 Gas Turbine.” Hydro rescheduled this work from 2023 to 2024 as the unit had not reached
24 the number of equivalent unit starts that would necessitate the inspection. This example
25 resulted in a carryover of \$2,872,979 from 2023 to 2024.

26 A portion of carryover results from external risk events for which Hydro has little or no
27 control. An example is the delayed delivery of a new genset by the vendor for the program

1 titled “Diesel Genset Replacement Unit 2012 – L’Anse-au-Loup.” This example resulted in a
2 carryover of \$2,468,146 from 2023 to 2024.

3 A portion of carryover results from internal risk events such as resource constraints and
4 equipment outages to enable the work. An example of this is the rescheduling of meter
5 installations from 2023 to 2024 within the capital project titled “Replace Metering Systems
6 (2022-2024),” as a result of a slower pace of meter replacements than anticipated due to
7 resource constraints. This example resulted in a carryover of \$623,410 from 2023 to 2024
8 and 2025.

9 **b)** As summarized in Hydro’s 2023 Capital Expenditures Report,¹ Hydro completed an analysis
10 of 2023 capital expenditures and two main themes related to carryover were identified:

- 11 **i.** Supply chain challenges; and
12 **ii.** Strategic carryover of work to future years.

13 Hydro continues to review its capital budget planning and execution methodologies and use
14 its expenditures analysis to identify opportunities that may contribute to a carryover. Hydro
15 intends to continue scrutiny of its program and projects schedules prior to the submission of
16 programs and projects proposals, with an emphasis on confirming:

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

23 Hydro reviews the factors to execute work as a consideration in its annual capital planning
24 process, including the impact of known carried-over work. However, due to the timing of
25 the capital budget cycle, Hydro is generally not aware of most carryover of previously
26 approved work at the time of preparation and filing of its annual capital budget application.

¹ “2025 Capital Budget Application,” Newfoundland and Labrador Hydro, July 16, 2024, sch. 5, app. B, sec 1.3, p. B-9/11.

1 Estimates are finalized in the first quarter of the year prior to execution, whereas the
2 construction of previously approved work has yet to commence in most cases. When
3 patterns emerge on the ability to execute through carryover analysis, Hydro endeavors to
4 mitigate these risks. Such examples from recent years include:

- 5 ● Increasing the duration for execution of the Replace Diesel Genset Program from two
6 years to three due to extended supply chain lead times and resource availability;
- 7 ● Temporarily pausing and re-evaluating the Replace Protective Relays Program as it was
8 discovered the pace was creating resource and outage challenges; and
- 9 ● Scaling back the Light-Duty Vehicles Program due to delays in receipt of equipment.

10 c) Hydro does not anticipate that carryover work will continue to compound in future years.
11 Hydro's experience is that the total carryover amount varies from year to year in an
12 unpredictable manner consistent with the inherent randomness of risk events. Years with
13 high carryover are not always followed by more years with high carryover, as can be seen in
14 Hydro's 2024 Capital Expenditures Overview.² As part of a capital forecasting exercise
15 completed in July 2024, Hydro projected between \$5 and \$10 million of work likely to be
16 carried over into future years. As such, Hydro is anticipating less carryover into 2025 than
17 realized into 2024; however, Hydro acknowledges that this could change as the remainder
18 of the year unfolds.

² "2025 Capital Budget Application," Newfoundland and Labrador Hydro, July 16, 2024, sch. 5, app. B, p. B-53, Chart 20.