

1 Q. **Reference: General**

2 Some of Hydro’s in-service failure programs do not include interest and escalation costs (i.e.  
3 Thermal In-Service Failures, Hydraulic In-Service Failures, and Diesel In-Service Failures). When  
4 are interest and escalation costs included in program estimates?

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7 A. Newfoundland and Labrador Hydro (“Hydro”) includes interest during construction (“IDC”) in  
8 the estimate for any construction project where the duration of the first dollar spent to project  
9 closeout is longer than six months. As assets associated with in-service failures are generally  
10 urgent in nature and placed in service relatively quickly once identified, Hydro typically does not  
11 include interest on these programs. Other programs also don’t typically include IDC as the  
12 individual scopes within the program generally don’t meet the six-month criteria.

13 Hydro typically applies escalation to all programs and projects in its capital budget applications  
14 (“CBA”). Hydro notes that there was a minor discrepancy in its 2025 CBA concerning how  
15 estimates were entered for the 2025 scope of a small number of these In-Service Failure  
16 Programs, which resulted in the exclusion of escalation.<sup>1</sup> As Hydro’s In-Service Failures Programs  
17 are budgeted based on historical averages and do not have a defined scope, Hydro does not  
18 expect this discrepancy to materially impact these programs, and will review the application of  
19 escalation on its In-Service Failure Programs in its next CBA.

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<sup>1</sup> The overall budgets for these select few were still consistently derived using historical averages as is standard for In-Service Failure Programs.