

1 Q. **Reference: Schedule 5 2024 Capital Expenditures Overview, page B-39.**

2 The overall project expenditure for Replace Powerhouse Station Service Panel (2023-2024) -  
3 Upper Salmon was \$543,000 or 35% over-budget.

4 a) Please explain when Hydro initially became aware of the magnitude of the additional  
5 project cost.

6 b) Please outline Hydro's rationale for continuing to spend capital on the project prior to  
7 further evaluation from the Board.

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10 A. a) Newfoundland and Labrador Hydro ("Hydro") initially became aware of the magnitude of  
11 the additional cost for the project titled "Replace Powerhouse Station Service Panel (2023-  
12 2024) - Upper Salmon" in July 2023, when contractor bids were received following an open  
13 call.

14 b) Hydro employs one of two mechanisms, when appropriate, to seek further evaluation from  
15 the Board of Commissioners of Public Utilities ("Board") when programs and projects are  
16 forecast to exceed their budgets by more than 10% and \$100,000:

17 1. For multi-year programs and projects that are not in their final year of completion,  
18 Hydro updates the budgets in the subsequent annual Capital Budget Application  
19 (CBA).<sup>1</sup> However, this is only possible when the forecast cost increase is identified  
20 and internally assessed by May 31, which is the cutoff date necessary for inclusion in  
21 the subsequent CBA filing.

22 2. When a forecast cost increase is identified within a single-year program or project,  
23 or within a multi-year project after May 31, Hydro internally assesses if the program  
24 or project should proceed at the higher cost, re-assessing the project justification

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<sup>1</sup> For example, Hydro provided budget updates for five multi-year projects and programs in the 2025 Capital Budget Application. Please refer to "2025 Capital Budget Application," Newfoundland and Labrador Hydro, July 16, 2024, sch. 5, sec. 2.0, pp. 12-16.

1 and determining if any alternative solutions may now be lower cost. Hydro reports  
2 the variance in the annual Capital Expenditures and Carryover Report and, if Hydro’s  
3 review determined that increased costs did not impact the alternative analysis and  
4 that the risk of delay presents additional financial, reliability, or execution risk,  
5 Hydro has previously continued execution. When delaying the completion of a  
6 program or project does not pose an unreasonable risk, Hydro has paused the  
7 program or project for further evaluation by the Board. For example, Hydro closed  
8 the project titled “Replace Diesel Shop Building (2023–2025) – Bishop's Falls” in  
9 2024 when it determined that the estimate to complete the project increased from  
10 \$2.3 million to approximately \$5.7 million.<sup>2</sup> Hydro advised the Board that it would  
11 further review the scope, estimate, and justification, with the intent to submit a  
12 new project proposal for review by the Board as part of its 2026 CBA.

13 For the project titled “Replace Powerhouse Station Service Panel (2023-2024) -  
14 Upper Salmon” which was forecast to be over budget by \$543,000 or 35% as a result  
15 of increased contract pricing compared to the estimate. Hydro confirmed that there  
16 were no viable alternatives to the project and that the risk associated with delaying  
17 completion was considered to be unacceptable. Hydro decided in August 2024 to  
18 proceed with the work at the higher cost. The increase in cost was not identified in  
19 time for inclusion as a budget update in the 2024 CBA. The forecasted variance was  
20 first reported to the Board as part of the 2023 Capital Expenditures and Carryover  
21 Report filed on April 1, 2024.<sup>3</sup>

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<sup>2</sup> For more details on this project, please refer to “2025 Capital Budget Application,” Newfoundland and Labrador Hydro, July 16, 2024, sch. 5, sec. 2.4, p. 15.

<sup>3</sup> Please refer to “2025 Capital Budget Application,” Newfoundland and Labrador Hydro, July 16, 2024, sch. 5, app B., sec. 5.1.2, p. B-39.