

- 1 **Q. (Reference CA-NP-001) The response provides historical data for the past 20 years**
2 **and forecast data for the years 2021 through 2026 relating to rate base, revenue**
3 **requirement, capital budgets and year-over-year rate changes. In 18 of the 21 years**
4 **since 2001 Newfoundland Power has exceeded the approved capital budget amount**
5 **and in 3 years Newfoundland Power has spent less than the approved capital budget**
6 **amount. For the 18 years that Newfoundland Power has spent more than the**
7 **approved capital budget amounts:**
- 8 a) **Explain why Newfoundland Power has consistently spent more than the**
9 **approved budget amounts (in 18 of the past 21 years) and the actions it has**
10 **taken to guard against continued overspending of approved capital budget**
11 **amounts going forward.**
- 12 b) **Has the Board ever failed to approve an over-spent amount, and if so, what**
13 **was the Board’s explanation?**
- 14
- 15 A. a) Capital expenditure variances are reflected in Newfoundland Power’s annual
16 Capital Expenditure Reports. In accordance with the *Capital Budget Application*
17 *Guidelines*, variance explanations are provided when a capital project has a
18 variance greater than 10% and \$100,000.
- 19
- 20 Over the past 21 years, some capital projects have had actual capital expenditures
21 that are less than the approved capital budget, and some projects have had actual
22 capital expenditures that are more than the approved capital budget. Factors that
23 generally contribute to actual capital expenditures varying from budget include:
24 (i) higher or lower than anticipated work volumes for projects where expenditures
25 are estimated based on historical averages, such as in-service failures; (ii) higher
26 or lower than expected contractor prices; (iii) higher or lower than expected
27 equipment prices; (iv) environmental conditions; and (v) higher or lower than
28 expected customer connections.
- 29
- 30 Since 2001, the Company’s total actual capital expenditures had an overall
31 variance of 4.7%.¹ This indicates that Newfoundland Power’s overall execution
32 of its capital program has been reasonably consistent with amounts approved by
33 the Board over this period.
- 34
- 35 Approximately $\frac{3}{4}$ of the total variance that has occurred since 2001 is attributable
36 to the period 2001 to 2013.² Higher customer connections were a primary driver
37 of variances during this period.³
- 38
- 39 For information on actions Newfoundland Power takes to manage its capital
40 expenditures, see response to Request for Information PUB-NP-010.

¹ Total expenditures over this period were \$1,572,800,000, while approved expenditures were \$1,501,600,000
((1,572,800,000 – 1,501,600,000) / 1,501,600,000 = 0.047 or 4.7%).

² The total variance since 2001 was approximately \$71 million, of which \$53 million occurred from 2001 to 2013
(\$53 million / \$71 million = 0.75, or 75%).

³ Customer connections exceeded forecasts by approximately 36,000 connections or 83% over this period.

- 1 b) Newfoundland Power is not aware of an instance where the Board has not
2 approved an actual capital expenditure of the Company.