

1 **Q. (Reference Application Schedule B, page ii) It is stated "*While Newfoundland***
 2 ***Power does not use estimate classifications, as referenced in the Provisional***
 3 ***Guidelines, budget estimates for projects and programs are expected to be***
 4 ***accurate within a range of plus or minus 10%."***
 5

- 6 **a) Specifically, what estimate classifications referenced in the Provisional**
 7 **Guidelines are not being met in the Application?**
 8 **b) Why is Newfoundland Power not using these estimate classifications**
 9 **and when does it plan to do so?**
 10 **c) How does Newfoundland Power know that all projects are "*expected to***
 11 ***be accurate within a range of plus or minus 10%?"***
 12 **d) Can Newfoundland Power guarantee that all project cost estimates are**
 13 **within a range of plus or minus 10%?**
 14 **e) Does this approach encourage development of project cost estimates**
 15 **that are on the high side?**
 16

17 **A. a)** Newfoundland Power assumes that the requirement for an estimate classification
 18 and expected range of actual costs, as set out on page 14 of 18 of the
 19 Provisional Guidelines, refers to a formalized cost estimate classification system
 20 similar to the Association for the Advancement of Cost Engineering ("AACE") Cost
 21 Estimate Classification System used for the Muskrat Falls Project.¹ Newfoundland
 22 Power does not use such a system for estimating project costs for its annual
 23 capital budget applications.
 24

- 25 **b)** Formalized cost estimate classification systems are typically used for large
 26 projects where multiple different departments or contractors are providing inputs
 27 to an overall project budget. These parameters do not generally apply to
 28 Newfoundland Power's capital projects, which tend to be smaller in scope.
 29

30 Newfoundland Power's budgeting practices for its capital projects have resulted
 31 in reasonably accurate results with relatively few variances in excess of 10% on
 32 an annual basis. The accuracy of the Company's budgeting methodology can be
 33 attributed to a number of factors, including the use of up-to-date information on
 34 material and contractor pricing and year-over-year consistency in the scopes of
 35 work of capital programs.²
 36

37 The Company observes that the AACE formalized cost estimate classification
 38 system establishes a 10% to 40% range for budget authorization purposes.³ As
 39 such, while a formalized cost estimate classification system would impose
 40 additional costs during the capital budgeting process, it would not necessarily

¹ For more information, see Exhibit P-00105 of the *Commission of Inquiry Respecting the Muskrat Falls Project*.

² For example, the budget estimates for the 2023 Walbournes and Molloy's Lane substation refurbishment projects were informed by tender pricing received weeks earlier for 2022 substation refurbishment and modernization projects.

³ A Class 3 estimate under the AACE Cost Estimate Classification System is for budgetary purposes. See *Commission of Inquiry Muskrat Falls Project*, Exhibit P-00105, Figure 1, page 2 of 6.

1 result in more accurate project estimates in comparison to what Newfoundland
2 Power has historically achieved.

3
4 Based on the foregoing, the Company does not currently have a plan to
5 implement a formalized cost estimate classification system. However, the
6 Company may determine that such a system would be appropriate in the future.
7

- 8 c) Newfoundland Power expects its project budget estimates to be accurate within
9 a range of plus or minus 10% as this is the direction provided by the Board in
10 the Provisional Guidelines for Capital Expenditure Reports and in its orders
11 approving annual capital budgets. In both cases, it has been the longstanding
12 practice of the Board that a detailed explanation be provided for each variance
13 where the actual expenditure was greater than the approved expenditure by
14 both \$100,000 and 10%.

15
16 Newfoundland Power has therefore set a target of plus or minus 10% in actual
17 costs from budgeted amounts for project execution. Various budgeting
18 methodologies are used to meet this target. This includes, as examples, the use
19 of up-to-date information on material and contractor pricing for capital projects
20 and the use of historical averages for capital programs with reasonable
21 consistency in work requirements on a year over year basis.
22

- 23 d) No, Newfoundland Power does not guarantee that all project cost estimates will
24 be within a range of plus or minus 10% as this is a target that can be affected
25 by external factors, such as changes in market conditions. However, any
26 variances in actual results from budgeted amounts that are in excess of 10% and
27 \$100,000 would be explained in detail to the Board.
28

- 29 e) No, in Newfoundland Power's view, its approach does not encourage the
30 development of project cost estimates that are on the high side. Based on the
31 Company's historical experience, its approach results in reasonably accurate cost
32 estimates with few variance explanations on a year over year basis.