

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 **a) Please confirm that this same statement was made in NP’s 2023 CBA**
 6 **(Schedule B, page ii).**

7 **b) Please confirm that NP has made no changes to its budget estimating**
 8 **process since filing the 2023 CBA.**

9 **c) Specifically, what estimate classifications referenced in the Provisional**
 10 **Guidelines are not being met in the Application?**

11 **d) How can the Board be expected to decide that all projects are “accurate**
 12 **within a range of plus or minus 10%” when NP has not provided the**
 13 **estimate classifications required in the Provisional Guidelines?**

14 **e) Should the Board order that any cost overruns exceeding 10% are not**
 15 **prudently incurred and pass-through to consumers will not be allowed?**

16 **f) Does Newfoundland Power’s estimation approach encourage development**
 17 **of project cost estimates that are on the high side?**

18
 19 **A. a) It is confirmed.**

20
 21 b) It is confirmed that there have been no changes to Newfoundland Power’s budget
 22 estimating process since filing the *2023 Capital Budget Application*. In its response
 23 to Request for Information CA-NP-034 from the *2023 Capital Budget Application*,
 24 Newfoundland Power advised that it did not have a plan to implement a formalized
 25 cost estimate classification system.

26
 27 c) Newfoundland Power assumes that the requirement for an estimate classification
 28 and expected range of actual costs, as set out on page 14 of 18 of the Provisional
 29 Guidelines, refers to a formalized cost estimate classification system similar to the
 30 Association for the Advancement of Cost Engineering (“AACE”) Cost Estimate
 31 Classification System used for the Muskrat Falls Project.¹ Newfoundland Power does
 32 not use such a system for estimating project costs for its annual capital budget
 33 applications.

34
 35 d) Formalized cost estimate classification systems are typically used for large projects
 36 where multiple different departments or contractors are providing inputs to an
 37 overall project budget. These parameters do not generally apply to Newfoundland
 38 Power’s capital projects, which tend to be smaller in scope.

39
 40 Newfoundland Power’s budgeting practices for its capital projects have resulted in
 41 reasonably accurate results. For example, variances from the Company’s annual
 42 capital budget have ranged from (6.4%) to 9.2% over the 2013 to 2022 period with
 43 a total variance over the 10-year period of 2.9%.² The accuracy of the Company’s
 44 budgeting methodology can be attributed to a number of factors, including the use

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

² See the response to Request for Information CA-NP-120.

1 of up-to-date information on material and contractor pricing and year-over-year
2 consistency in the scopes of work of capital programs.³
3

4 The Company observes that the AACE formalized cost estimate classification system
5 establishes a 10% to 40% range for budget authorization purposes.⁴ As such, while
6 a formalized cost estimate classification system would impose additional costs during
7 the capital budgeting process, it would not necessarily result in more accurate
8 project estimates in comparison to what Newfoundland Power has historically
9 achieved.
10

11 Based on the foregoing, the Company does not currently have a plan to implement a
12 formalized cost estimate classification system. However, the Company may
13 determine that such a system would be appropriate in the future.
14

- 15 e) No, as Newfoundland Power cannot guarantee that all project cost estimates will be
16 within a range of plus or minus 10% as the actual expenditures can be affected by
17 external factors, such as changes in market conditions. The Provisional Guidelines
18 require that variances in actual results from budgeted amounts that are in excess of
19 10% and \$100,000 require the utility to provide a full explanation of the reason for
20 the variance setting out any change in scope, schedule and budget to the Board.⁵
21 The Board, in turn, can determine the prudence of the actual expenditures.
22
- 23 f) No, in Newfoundland Power's view, its approach does not encourage the
24 development of project cost estimates that are on the high side. See part d) for
25 further information.

³ For example, the budget estimates for the 2024 substation refurbishment and modernization projects were informed by tender pricing received weeks earlier for 2023 substation refurbishment and modernization projects.

⁴ 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.

⁵ See the Provisional Guidelines, section C.1. at page 7 of 18.