

- 1 **Q.** (Reference 2023 Capital Budget Expenditure Status Report, page i) It is stated
 2 *"The Capital Budget Application Guidelines (Provisional) require variance*
 3 *explanations to be provided for variances of more than 10% of approved*
 4 *expenditure and \$100,000 or greater. For the 2023 Capital Budget Expenditure*
 5 *Status Report, there are no projects that meet the criteria for variance*
 6 *explanations."* In the 2022 Capital Budget Expenditure Status Report included
 7 with NP's 2023 Capital Budget Application, only one category had a budget
 8 variance, Distribution budgeted at \$46,214,000 compared to the forecast of
 9 \$48,130,000, resulting in an overage of \$1,916,000. This variance is about 4%
 10 for the distribution cost category, and about 1.8% of the total approved budget
 11 (see table on page 1 of 13). On the other hand, actual variances are provided
 12 in the 2022 Capital Expenditure Report (page 1 of 14) which shows that 7 of
 13 the 11 project categories were over-budget by a total amount of \$10,782,000.
 14 This represents about 10% of the approved 2022 capital budget amount. In 6
 15 of the 7 categories that came in over budget, variances were greater than
 16 \$100,000, and in 3 of the 7 categories that came in over budget, the variance
 17 exceeded 10% of the budgeted amount.
- 18 a) Please confirm, or correct, these figures.
 19 b) Please confirm that 10 capital projects in 2022 exceeded budget by more
 20 than 10% and \$100,000.
 21 c) Can the Board and the parties expect similar cost overruns when the 2023
 22 actual project cost figures come in? If not, why not?
 23 d) What has NP changed in the 2024 Capital Budget Application to improve its
 24 budget estimating performance?
 25 e) In light of its poor budget estimating performance in 2022, will NP be
 26 refileing its 2024 Capital Budget Application to reflect lessons learned?
 27 f) Does this poor budget estimating performance suggest that the Capital
 28 Budget Expenditure reports included in the Capital Budget Applications
 29 provide little or no value, and are a waste of time and resources?
 30 g) Please provide a table illustrating all Capital Budget overruns for the
 31 previous ten years showing the total amount in dollars.
 32 h) Are the total amounts of budget overruns referred to in g) above now in
 33 rate base?
- 34
- 35 **A.** a) While Newfoundland Power cannot confirm the passage provided, the Company
 36 confirms that excluding the three asset classes that came in under budget, the total
 37 variance of the seven asset classes that came in over budget totalled \$10,782,000.¹
 38 Of those seven asset classes, three had variances greater than 10% of the budget
 39 amount.
 40
 41 b) There were ten capital projects in the *2022 Capital Expenditure Report* where the
 42 actual expenditure was greater than the approved expenditure by both \$100,000
 43 and 10%. Eight of those projects were approved in Newfoundland Power's *2022*
 44 *Capital Budget Application*. Two of those projects were capital projects that were
 45 approved in prior years and had carried forward expenditures into 2022.

¹ One asset class had no variance.

1 c) The *2023 Capital Budget Expenditure Status Report* (the "Report") is provided in
2 accordance with Order No. P.U. 38 (2022). The Report requires, among other
3 things, the variance between the projected total 2023 expenditures and the
4 approved 2023 budget and an explanation of the variance. Variances of more than
5 10% of approved expenditure and \$100,000 or greater are explained in the Report.
6

7 The *Public Utilities Act* requires that the Report be filed by April 1 of each year. At
8 that time, the construction season has not started in full and year-to-date capital
9 expenditures primarily relate to design work which is internal labour intensive. As
10 such, annual variances greater than 10% and \$100,000 for 2023 projects and
11 programs are typically not known at that time. While certain cost pressures may be
12 known at the time the Report is filed, the extent of the impact may not be certain,
13 including any offsetting effects such as lower work level requirements.
14

15 At this time, Newfoundland Power is aware of cost pressures associated with the
16 *Transmission Line 94L Rebuild* project, approved by the Board as a three-year
17 project in Order No. P.U. 36 (2021), that could result in higher actual costs than
18 budgeted. The Company is currently reviewing the project's scope and cost. In
19 accordance with the Provisional Guidelines, any material change in the nature or
20 scope of the project will be filed with the Board for further review.
21

22 d) Newfoundland Power's budgeting practices for its capital projects and programs
23 have resulted in reasonably accurate results. For example, variances from the
24 Company's annual capital budget have ranged from (6.4%) to 9.2% over the 2013
25 to 2022 period with a total variance over the 10-year period of 2.9%.² Accordingly,
26 there were no changes to the Company's capital budget estimation process for the
27 *2024 Capital Budget Application*.
28

29 Newfoundland Power does anticipate transitioning to a higher number of multi-year
30 projects going forward to manage supply chain constraints and procurement lead
31 times. For example, the Company is transitioning to multi-year substation
32 refurbishment and modernization projects, beginning with the *Islington Substation*
33 *Refurbishment and Modernization* project proposed in the *2024 Capital Budget*
34 *Application*.
35

36 e) No, Newfoundland Power will not be refiling its *2024 Capital Budget Application*.
37 The budget estimates in the application reflect the best available information to the
38 Company at the time of budget preparation, including the use of up-to-date
39 information on material and contractor pricing, inflation forecasts and customer,
40 energy and demand forecasts.

41 f) The *2023 Capital Budget Expenditure Status Report* is filed in compliance with Order
42 No. P.U. 38 (2022). See part c) for further information.
43

44 g) See part a) of the response to Request for Information CA-NP-120.

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

- 1 h) Newfoundland Power's *2024 Capital Budget Application* seeks approval of the
2 Company's average rate base for 2022 in the amount of \$1,230,434,000 as set out
3 in *Schedule D* to the application. The rate base amount includes 2022 actual capital
4 expenditures for completed capital projects and programs.³

³ Only actual capital expenditures incurred through the complete execution of the programs and projects are included in the Company's rate base. This can differ from the amount included in the annual capital expenditure reports when there are forecast amounts carried forward to subsequent years.