

1 **Q. Reference: 2024 Capital Budget Application – Intervenor Evidence, Utility**
2 **Management Responsibility Report, Midgard Consulting Incorporated, page 21.**
3

4 *“Once a revenue requirement is approved it is expected that the utility will manage its*
5 *capital budgets and O&M costs within the approved revenue requirement, with*
6 *planned activities being adapted as required to avoid exceeding the approved revenue*
7 *requirement.”*
8

9 **How does the citation above compare with how General Rate Applications are**
10 **used in Newfoundland and Labrador? For example, in Newfoundland and**
11 **Labrador, must public utilities manage costs within the revenue requirement**
12 **approved in General Rate Applications?**
13

14 **A.** It is Midgard’s understanding that there are the following mechanisms for managing the
15 approved budget:
16

17 1) Allowance for Unforeseen Items

18 a. *“An allowance for unforeseen items will be approved by the Board for each*
19 *utility as part of the utility’s annual capital budget application. The purpose*
20 *of this allowance is to permit the utility to act expeditiously to deal with*
21 *events affecting the electrical system which cannot wait for the specific*
22 *approval of the Board. The allowance should be used only for expenditures*
23 *which are so urgent that any delay would have serious negative*
24 *consequences. A supplemental capital expenditure application should be filed*
25 *for approval of related capital expenditures for aspects of the project which*
26 *are not urgent.”*¹

27 2) Supplemental Capital Expenditures:

28 a. *“A utility may submit an application for approval of a supplemental capital*
29 *expenditure which was not included in its capital budget application for the*
30 *year, where the expenditure is necessary and cannot be delayed until the next*
31 *year but is not so urgent as to justify using the allowance for unforeseen*
32 *items. When submitting an application for approval of a supplemental capital*
33 *expenditure the utility is not required to apply for approval to increase the*
34 *total approved annual capital budget.”*²

35 3) Capital Expenditures Report:

36 a. *“A detailed explanation for each variance where the actual expenditure was*
37 *greater than the approved expenditure by both \$100,000 and 10%. The utility*

¹ Newfoundland & Labrador Board of Commissioners of Public Utilities, *Capital Budget Application Guidelines* (Provisional), Section 7. [Link](#).

² Newfoundland & Labrador Board of Commissioners of Public Utilities, *Capital Budget Application Guidelines* (Provisional), Section B. [Link](#).

1 *will provide a full explanation of the reason for the variance setting out any*
2 *change in scope, schedule and budget.”*³
3

4 The allowance for unforeseen items and supplemental capital expenditures enables
5 Newfoundland and Labrador utilities to address emergent and/or unforeseen issues to
6 maintain the integrity of the electrical system. The capital expenditures report
7 implicitly allows utilities to exceed the approved budgets by set limits (i.e., both
8 \$100,000 and 10%) while requiring utilities to consider options to manage within the
9 approved budget. The capital expenditures report requires utilities to provide:

10
11 *“A discussion of approved capital expenditures which were modified, re-*
12 *prioritized, deferred, re-paced, or cancelled. The utility shall demonstrate its*
13 *decision making process, including why these capital items were selected for*
14 *modification, re-prioritization, deferral, re-pacing or cancellation.”*⁴

³ Newfoundland & Labrador Board of Commissioners of Public Utilities, *Capital Budget Application Guidelines* (Provisional), Section C. [Link](#).

⁴ Newfoundland & Labrador Board of Commissioners of Public Utilities, *Capital Budget Application Guidelines* (Provisional), Section C. [Link](#).