Q. The Application states that the estimated cost of the project is $3,045,000.

(a) Please advise if this amount has within it any contingencies for cost overruns and what has been the history of cost overruns in similar projects.

(b) What impact will the cost of this project have on ratepayers?

(c) What impact will the project, once complete, have on NL Hydro's rate of return?

(d) Who is paying for this project and how?

A. (a) The project budget of $3,045,000 contains a 11% contingency to address any cost overruns. The history of projects executed of a similar nature since 2010 is shown in Table 1.

Table 1: Distribution Projects – Predominently New Construction

Year	Project	Budget	Actual	Difference	Percent
2010	Glenburnie	$ 3,556,700	$ 2,971,095	$ (585,605)	-16.5%
2010	Roddickton	$ 947,500	$ 964,606	$ 17,106	1.8%
2012	Bay D'Espoir L1	$ 856,600	$ 827,483	$ (29,117)	-3.4%
2012	Bay D'Espoir L2	$ 952,900	$ 777,180	$ (175,720)	-18.4%
2012	Happy Valley L7	$ 1,260,000	$ 1,296,437	$ 36,437	2.9%
2013	Farewell Head L5	$ 1,110,100	$ 1,185,958	$ 75,858	6.8%
2013	Farewell Head L6	$ 961,900	$ 977,684	$ 15,784	1.6%
2013	Wabush L11	$ 400,800	$ 497,756	$ 96,956	24.2%
2013	Cow Head L1	$ 604,500	$ 668,469	$ 63,969	10.6%
2013	Nain - Pumphouse Feeder	$ 589,900	$ 663,138	$ 73,238	12.4%
2013	Forteau	$ 774,269	$ 412,789	$ (361,480)	-46.7%
2014	Daniel's Harbour	$ 1,063,200	$ 1,108,130	$ 44,930	4.2%
2016	Duley Lake - Cabin Area	$ 987,400	$ 741,500	$ (245,900)	-24.9%
	TOTAL	**$ 14,065,769**	**$ 13,092,225**	**$ (973,544)**	**-6.9%**

(b) Assuming a rate of return on rate base of 6.61%[1], Hydro estimates a $3,045,000 capital project will increase its revenue requirement by approximately $290,000[2] or 0.05%.[3] However, the additional revenue resulting from these customers as a result of the load growth will partly offset the rate impact of the increased revenue requirement.

(c) Capital additions between test years will erode Hydro's rate of return. This project will have no impact on Hydro's approved rate of return for the subsequent test year as the rate of return will be set based on the approved rate of return of Newfoundland Power.

If approved, the additional capital investment will increase Hydro's rate base in Hydro's next test year. This will increase Hydro's required return on rate base. The estimated revenue requirement impact of this project is provided in Hydro's response to item (b) above.

(d) If approved, the initial cost of construction of this project will be financed by Hydro. Hydro will subsequently, in its next General Rate Application, include this project in the rate base to be used in determining the test year revenue requirement.

The inclusion of this project in rate base for rate setting will increase revenue requirement from Hydro's Island Interconnected Rural customers and contribute to

[1] 6.61% is Hydro's proposed 2015 Test Year Weighted Average Cost of Capital.
[2] $3,045,000 * 6.61% = $201,275 plus $90,000 depreciation (3% annually). This does not include the impact of any incremental operating and maintenance expense.
[3] $291,275 / 2013 Amended General Rate Application 2015 Test Year revenue requirement for rate setting purposes of $566,510,000.

a higher rural deficit. The rural deficit is allocated for recovery from customers of Newfoundland Power and Hydro Rural customers on the Labrador Interconnected System.