

1 Q. **2017 General Rate Application - Operations**

2 Page 3.34, Table 3-17 – Describe Hydro’s budgeting process and provide any
3 guidelines issued to staff regarding the development of annual budgets.

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6 A. The budget process begins with the request for updates of all major assumptions:

7 • Load forecasts are prepared and include forecast information received from
8 Newfoundland Power and the Industrial Customers as well as Hydro’s own
9 forecasts for rural systems;

10 • Based on the load forecast, Resource Production and Planning determines
11 the hydraulic/thermal split (production plan) for generation and calculates
12 and prepares the fuel budget. The purchased power estimates are also
13 determined at this time;

14 • Capital budgets are submitted to the Hydro Board of Directors and the
15 Board of Commissioners of Public Utilities for approval;

16 • The capital asset amortization budget is prepared based on capital asset
17 additions and projected in-service dates for construction projects in
18 progress;

19 • Depreciation and accretion expenses associated with asset retirement
20 obligations (AROs) are estimated based on timing of the settlement of the
21 obligation;

22 • Projected operating expenses, fuel, power purchases capital expenditures,
23 and revenue inflows are used to generate a forecast of borrowing
24 requirements and interest expense;

25 • Long-term debt related payments are forecast based on debt repayment
26 schedules;

- 1 • Operating expenses are estimated based on the labour forecast and costs
- 2 associated with maintenance and operational activity;
- 3 • Operating costs are prepared by business unit and submitted to general
- 4 managers and ultimately to the Vice Presidents of each area;
- 5 • Once the operating costs are approved by the respective Vice President,
- 6 they are submitted as part of Hydro's total budget;
- 7 • A series of reviews of operating costs with each Vice President, Finance, and
- 8 the President are conducted;
- 9 • All elements are consolidated and forecast income statement and balance
- 10 sheet information is prepared;
- 11 • Budgets are consolidated and reviewed in detail with the Executive team;
- 12 • Depending on cost levels, there may be multiple reviews and iterations until
- 13 the final numbers are approved;
- 14 • The budget is subject to various levels of review and approval by Managers,
- 15 Vice-Presidents, and President of Hydro; and
- 16 • Final review and approval is provided by the Hydro Board of Directors.

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The Test Year estimates were prepared as part of the 2017 Budget cycle and finalized in early 2017 which is not part of the typical budget process. Hydro's Executive team was actively engaged during the preparation of the estimates Hydro Executive held numerous meetings and reviews to establish the agreed upon Test Year estimates, including the decision to include a productivity allowance. Guidelines that were issued to staff are attached as PUB-NLH-051, Attachment 1.

NLH Guidelines – Budgets 2017, 2018 and 2019**1.1 Summary of Key Dates (Refer to Appendix A for Detailed Timelines O&M related activities are highlighted)**

DATE	REQUIREMENT
June 3, 2016	Main Activity Template, Non-maintenance Budget Template, and Professional Services & Training Template and Salary Template released
July 1, 2016	Salary Budget completed
July 22, 2016	Main Activity Template, Non-maintenance Budget Template, and Professional Services & Training Template completed
August 1, 2016	Budget approved by General Managers and sent to Hydro Finance for consolidation
August 22, 2016	Budget decks completed and sent to Hydro Finance for consolidation
August 29, 2016 - September 2, 2016	Review meetings with Hydro President and VP's
October 3, 2016	Nalcor Submission

1.2 Ledger InformationLedger Names

Clarity ledger Budget.V1 and JDE ledger V1 will be used for Budget 2017, 2018 and 2019.

1.3 Budget Requirements**a) Salaries & Benefits**

Salary and Benefit information is provided by Human Resources. Human Resources will update the salary budgets into the Salary Template. Benefit calculations are also provided by Human Resources.

b) Professional Services & Training

The Professional Services & Training Budget Template is used to budget the following areas:

- Consultants
- Legal
- PUB related costs
- Software, Acquisition and Maintenance
- Training

NLH Guidelines – Budgets 2017, 2018 and 2019

You are required to provide details such as vendor and description of activity to support the requirement for this cost.

c) All Other O&M Expenses

The Non-maintenance Budget Template is used to budget all other O&M expenses, including the following:

System Equipment Maintenance

System Equipment Maintenance include items such items as materials, contract labour, tools and operating supplies. These costs should be budgeted based on planned activity levels

Travel Costs

Travel costs include items such as meals, accommodations, per diems, airline tickets.

Conferences

The budget for conferences should only include the registration fee. Other cost will be budgeted with travel.

d) Operating Projects

Operating Projects will be budgeted using the Main Activity Template in Clarity.

NLH Guidelines – Budgets 2017, 2018 and 2019**APPENDIX A - DETAILED HYDRO TIMELINES**

DATE	REQUIREMENTS FOR BUDGETS 2017, 2018 & 2019
June 3, 2016	Operating and maintenance budget templates, including salary budget templates are available to business unit owners
June 10, 2016	Load forecast Labrador and Island complete
June 17, 2016	Fuel and Power Purchase budgets complete
June 24, 2016	RSP budget complete
July 1, 2016	Salary budget completed
July 15, 2016	Revenue budget complete
July 22, 2016	Operating budgets completed by business unit owners
August 1, 2016	Complete operating and maintenance budgets approved by General Managers
July 27, 2016	Interest budget inputs received from Treasury
August 1, 2016	Capital budget submitted to PUB
August 7, 2016	Depreciation, Loss on Disposal, Removal Cost, and IDC budgets complete
August 7, 2016	Complete Income Statement budget complete
August 22, 2016	Operating budget decks completed and sent to Hydro Finance for consolidation
August 29, 2016 - September 2, 2016	Review meetings with Hydro President and VP's
October 3, 2016	Nalcor Submission