

1 Q. **Reference: Volume I: 2020 Capital Projects Overview**

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3 Hydro states on page 5, lines 4–5:

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5 2020 CBA projects include an average contingency of approximately 10%

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7 Please explain how the contingency amount for each project is determined. Is contingency a

8 fixed percentage of estimated project costs, or does it vary from project to project?

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11 A. Newfoundland and Labrador Hydro’s (“Hydro”) project contingency is an allowance within a  
12 project cost estimate that is judged necessary to cover costs that are expected but are not  
13 identifiable at the time of estimate preparation. Project estimators use experience to establish  
14 an appropriate contingency percentage for each work package within a project. The contingency  
15 amount for each project varies based upon the level of certainty of the scope definition and an  
16 assessment of project cost risk. The amount of contingency included in each project estimate is  
17 shown as a separate line item in the cost estimate summary table within each proposed capital  
18 project.

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20 Prior to the 2020 Capital Budget Application, Hydro’s budget contingency was approaching 20%  
21 on an overall basis. Hydro’s project completion, overall, demonstrated this level of contingency  
22 was not required. Therefore, Hydro has reflected a reduced level of contingency in the 2020  
23 Capital Budget Application.