Q. **Reference: Tab C; Volume I: Capital Projects Over $500,000**

The budgets for a number of annual projects such as Thermal In-Service Failures - $2,000,000 (page C-13); Provide Service Extensions - $4,284,000 (page C-39); and Upgrade Distribution System - $3,195,000 (page C-47) are based on historical expenditures.

Please identify any cost efficiency measures that Hydro has put in place to control and monitor the budget for these annual projects.

A. Newfoundland and Labrador Hydro's ("Hydro") day-to-day decision making in all phases of its capital projects, including those projects where budgets are based on historical expenditures, focuses on managing costs to deliver least-cost service to customers. Some examples of cost-efficiency measures that Hydro has in place for capital projects are as follows:

- Best practices in procurement are employed, consistent with the Government of Newfoundland and Labrador's *Public Procurement Policy*.[1] These best practices are designed to maximize competition, obtain best value for money, and encourage supplier involvement to identify new and innovative ideas and products.
- Existing publicly tendered service contracts and master standing offers are leveraged, when applicable, for the procurement of commodities and services. This reduces the cost associated with procurement and reduces the duration of equipment downtime.
- Available spare parts from Hydro's inventory are used rather than procuring new equipment for capital projects. This reduces equipment downtime and eliminates expediting fees and delays that could occur if a spare part was not readily available. Hydro regularly reviews its requirements for critical spares and procures spares when appropriate.

[1] *Public Procurement Policy*, Government of Newfoundland and Labrador <https://www.gpa.gov.nl.ca/division/policy/index.html>

- Reverse engineering[2] is employed for the replacement of components when it is more cost effective than procurement of components from original equipment manufacturers.

Please refer to Hydro's response to PUB-NLH-010 regarding the manner in which Hydro controls and monitors the budgets for capital projects.

[2] Reverse engineering is the preparation of engineering fabrication drawings using measurements of existing equipment that has been disassembled, rather than creating a new design using engineering principles and computations.