

1 Q. **Reference: Capital Expenditures and Carryover Report for the Year Ended December 31, 2022,**  
2 **Table 2, page 44**

3 In the 10-year period ending 2022, Hydro has been under-budget in 9 of the 10 years by  
4 amounts ranging from 16.7% to 59.8%.

- 5 a) How has this impacted Hydro's ability to meet its mandate? Specifically, how has  
6 customer service been impacted?
- 7 b) Does this performance measure prove that projects included in the CBAs can actually be  
8 deferred with little consequence for customers?
- 9 c) Does this performance suggest that Hydro is badly in need of an asset management  
10 program that can assess the risk of project deferral?
- 11 d) How have these under-budget variances been treated in rate base?
- 12 e) How have over-budget variances been treated in rate base?
- 13 f) How does the Board determine prudence in cases where Hydro has large variances?
- 14 g) What has Hydro done to improve its project execution activities since Dark NL in 2014?
- 15 h) What documentation has the Board issued with respect to Hydro's poor performance in  
16 project execution?

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19 A. a) Newfoundland and Labrador Hydro's ("Hydro") under-expenditures are associated with:

- 20 • Cancelled work;
- 21 • Work completed for less than the budget estimate; and
- 22 • Carryover of work.

23 **Cancelled Work**

24 Hydro cancels approved projects if it becomes evident that the original project justification  
25 is no longer valid due to new information or changing conditions. Cancelling projects when

1 the justification is no longer valid is consistent with Hydro's mandate to maintain safe,  
2 reliable, least-cost service in an environmentally responsible manner to its customers.

3 **Work Completed Under Budget**

4 Hydro acknowledges that estimate accuracy is important for regulatory review, efficiency,  
5 and rate setting; however, work being completed under budget does not introduce risk to  
6 Hydro in fulfilling its mandate as the work proposed to maintain safe, reliable, least-cost  
7 service, and with the new requirement to do so in an environmentally responsible way, has  
8 been completed.

9 **Carryover of Work**

10 Please refer to Hydro's response to NP-NLH-001 of this proceeding regarding Hydro's  
11 established project management practices and procedures to monitor, control, and manage  
12 carryover, including the impact of carryover on Hydro's ability to fulfil its mandate

13 **b)** Hydro does not submit a capital budget proposal for approval unless it is deemed necessary  
14 for the generation and transmission of safe, reliable power in the province, using the best  
15 information available at the time of the application. Please refer to Hydro's response to NP-  
16 NLH-001 of this proceeding.

17 **c)** Please refer to part a) of this response for context regarding Hydro's under-expenditures.  
18 Please refer to Hydro's response to NP-NLH-001 of this proceeding regarding Hydro's  
19 established project management practices and procedures to monitor, control, and manage  
20 carryover.

21 **d)** Assets are included in rate base when project assets are placed into service at the actual  
22 project cost incurred rather than budgeted spend on the project. Hydro seeks approval of its  
23 rate base as part of its annual capital budget application.

24 **e)** Please refer to part d) of this response.

25 **f)** While it cannot speak for the Board of Commissioners of Public Utilities ("Board"), Hydro  
26 believes that it is likely that the Board would examine all relevant information provided with  
27 respect to the variances to determine if those variances were prudently incurred.

1       **g)** Hydro has an established, mature set of procedures and practices to guide the management  
2       of projects through all phases of initiation, planning, execution, and close out. These  
3       practices and procedures incorporate continual improvement methodologies to ensure that  
4       lessons learned are captured and leveraged.

5       In 2011, prior to the events of 2014 that led to extended customer outages, Hydro initiated  
6       an external benchmarking review of its project management procedures and practices  
7       against the Project Management Institute’s Project Management Body of Knowledge, which  
8       is considered the primary standard for project management across all sectors. At that time,  
9       a number of significant gaps were identified in Hydro’s processes, particularly in the areas of  
10      quality, risk and time/plan management. Hydro utilized this report to develop and  
11      implement an improvement plan. This led to a number of significant improvements such as:

- 12           • Improvement to project scope statement templates;
- 13           • Improvements to project planning including the use of Primavera to house all  
14           project plans within an overall Integrated annual work plan for more effective  
15           resource utilization;
- 16           • Development of a project change process and associated forms; and
- 17           • Development of a project risk management process and associated project risk  
18           register template.

19      Subsequent updates to that benchmarking exercise completed in 2013, 2015, and 2018 by  
20      external consultants verified that Hydro improved significantly in the key focus areas. These  
21      updated reports were utilized by Hydro to continue to identify opportunities and advance  
22      continual improvement work. Hydro discontinued benchmarking updates by external  
23      consultants after 2018; Hydro continues to build and execute an annual improvement plan  
24      based on lessons learned gathered during the execution of projects.

25      **h)** Hydro does not characterize its historical under-expenditures as poor performance. While  
26      Hydro acknowledges that there are improvements that can always be made in budgeting  
27      and project execution, there are many aspects that are outside Hydro’s control, such as  
28      supply chain issues. At times, under-expenditures can also be due to strategic deferrals of  
29      work.

- 1 The Board has not provided any direction to Hydro with respect to its expenditure variances.