1   **Q.**   **(Reference 2024 Capital Budget Application, Schedule B, page ii) It is stated**
2   *"While Newfoundland Power does not use estimate classifications, as*
3   *referenced in the Provisional Guidelines, budget estimates for projects and*
4   *programs are expected to be accurate within a range of plus or minus 10%."*
5   **a) Does the large number of variances from budget in 2022 suggest that NP**
6   **should adopt estimate classifications "as referenced in the Provisional**
7   **Guidelines", or some other budget estimating technique?**
8   **b) Does NP plan to implement the estimate classifications identified in the**
9   **Provisional Guidelines, and if so, when?**
10
11 A.   a) Table 1 provides a summary of Newfoundland Power's annual capital budget
12   variances over the past ten years.

Table 1 Capital Budget Variances 2013 to 2022				
Year	Budget ($000s)	Actual ($000s)	Variance ($000s)	Variance (%)
2013	80,788	84,148	3,360	4.16%
2014	103,572	111,508	7,936	7.66%
2015	94,211	100,927	6,716	7.13%
2016	107,028	100,181	(6,847)	(6.40%)
2017	95,521	89,691	(5,830)	(6.10%)
2018	84,776	89,110	4,334	5.11%
2019	100,856	106,296	5,440	5.39%
2020	96,614	96,986	372	0.39%
2021	112,836	115,925	3,089	2.74%
2022	108,121	118,019	9,898	9.15%

13   Newfoundland Power's budgeting practices for its capital projects and programs
14   have resulted in reasonably accurate results. For example, variances from the
15   Company's annual capital budget have ranged from (6.4%) to 9.2% over the 2013
16   to 2022 period with a total variance over the 10-year period of 2.9%. The accuracy
17   of the Company's budgeting methodology can be attributed to a number of factors,

1   including the use of up-to-date information on material and contractor pricing and
2   year-over-year consistency in the scopes of work of capital programs.[1]
3
4   Formalized cost estimate classification systems, such as the Association for the
5   Advancement of Cost Engineering ("AACE") Cost Estimate Classification System, are
6   typically used for projects larger in scope than those initiated by Newfoundland
7   Power.[2] The Company observes that the AACE formalized cost estimate
8   classification system establishes a 10% to 40% range for budget authorization
9   purposes.[3] As such, while a formalized cost estimate classification system would
10   impose additional costs during the capital budgeting process, it would not
11   necessarily result in more accurate project estimates in comparison to what
12   Newfoundland Power has historically achieved.[4]
13
14   In addition, the level of inflationary pressures on materials experienced in 2022
15   could not have been reasonably estimated at the time the *2022 Capital Budget*
16   *Application* was prepared in the spring of 2021. For example, in its February 2021
17   forecast, the Conference Board of Canada ("CBOC") forecasted the GDP Deflator for
18   Canada to be 2.3% for 2021 and 1.8% for 2022.[5] Actual GDP Deflator for Canada
19   changes reported by the CBOC in August 2023 for 2021 and 2022 were 8.2% and
20   7.2%, respectively.
21
22   To illustrate the impact of the inflationary cost pressures, Table 2 compares
23   Newfoundland Power's budget capital expenditures for 2022 compared to its 2022
24   actual capital expenditures, adjusted for the level of inflation expected at the time
25   the budget was prepared.[6]

Table 2 Capital Budget Variance 2022 with Inflation Adjusted			
Budget ($ millions)	Actual ($millions)	Variance ($millions)	Variance (%)
108.1	109.6	1.5	1.4%

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[1]   For example, the budget estimates for the 2024 substation refurbishment projects were informed by tender pricing received weeks earlier for 2023 substation refurbishment and modernization projects.

[2]   For example, a formalized cost estimate classification system was used for the Muskrat Falls project. For more information, see Exhibit P-00105 of the *Commission of Inquiry Respecting the Muskrat Falls Project.*

[3]   A Class 3 estimate under the AACE Cost Estimate Classification System is for budgetary purposes. See *Commission of Inquiry Respecting the Muskrat Falls Project*, Exhibit P-00105, page 2 of 6, Figure 1.

[4]   Additional costs include study, regulatory, implementation, subscription and training costs.

[5]   In its January 2022 forecast, the CBOC forecasted the Canadian GDP deflator change for 2022 to be 1.9%.

[6]   The inflation adjustment removes the 2021 and 2022 actual GDP Deflator for Canada changes from 2022 non-labour costs and adds back the 2021 and 2022 GDP Deflator for Canada changes forecasted at the time the 2022 capital budget was prepared.

1   With inflation adjusted, the variance from the 2022 budget amount is an estimated
2   1.4%.
3
4   Based on the foregoing, the Company does not currently have a plan to implement a
5   formalized cost estimate classification system nor does Newfoundland Power's
6   results suggest that such a system should be implemented at this time.
7
8   b) See part a).