

1 **Q. (Reference 2022 Capital Expenditure Report, Appendix A, Street Lighting, page**
 2 **4 of 8) With respect to the 25% cost overrun, it is stated "Capital expenditures**
 3 **for overhead and underground wiring replacements were \$712,000 higher**
 4 **than anticipated as a result of higher dedicated street light pole replacements**
 5 **in comparison to the historical average. Capital expenditures for new street**
 6 **lights were in line with the historical average."**

7 **a) Please provide a detailed comparison of budgeted and actual overhead and**
 8 **underground wiring replacements resulting in \$712,000 higher than**
 9 **anticipated?**

10 **b) Does this cost overrun imply that using historical costs is not a particularly**
 11 **good methodology for estimating future costs?**

12 **c) Has this impacted costs included in the 2024 Capital Budget Application?**

13
 14 **A. a)** The 2022 *Street Lighting* capital project involved the installation of new street
 15 lighting fixtures and the replacement of overhead and underground wiring, where
 16 necessary.¹ The 2022 capital budget estimate for the *Street Lighting* project was
 17 \$2,507,000 with actual 2022 expenditures of \$3,146,000. The resulting project
 18 variance was \$639,000.

19
 20 A detailed comparison of budgeted and actual new and replacement streetlight
 21 expenditures, including overhead and underground wiring replacements, is included
 22 in Table 1.

Table 1 2022 Street Lighting Capital Project Budget, Actual and Variance (\$000s)			
	Budget	Actual	Variance
New Street Lights	2,283	2,209	(74)
Replacement Street Lights	225	937 ²	712
Total	2,507	3,146	639

23 **b)** This cost overrun does not imply that using historical costs is not a particularly good
 24 methodology for estimating future costs. In 2022, there were a number of different
 25 matters ongoing related to the budgeting of the *Street Lighting* project. There was a
 26 transition away from a unit cost methodology to an historical average methodology,
 27 as well as the continuation of the *Street Lighting - LED Replacement Program*.

¹ A street light fixture includes the light head and photocell as well as the pole mounting bracket and other hardware.

² This includes a \$208,000 expenditure related to the replacement of concrete street light poles that were identified through distribution feeder inspections.

1 In the capital budgets prior to the *2022 Capital Budget Application*, the costing
2 methodology used for estimating the budget requirement for street lights used
3 inflation-adjusted unit costs and forecast new customer connections. In the years
4 prior to 2022, Newfoundland Power experienced significant variances between
5 budgets and actual expenditures. As a result, the Company reassessed its *Street*
6 *Lighting* costing methodology for 2022.³

7
8 In 2022, the process for estimating the budget requirement for street lights was
9 changed to use only the historical average. Historical annual expenditures related to
10 new street lights over the most recent five-year period, including the current year,
11 were expressed in current-year dollars ("Adjusted Costs"). The estimate for the
12 budget year was calculated by taking the average of the Adjusted Costs and inflating
13 it using the GDP Deflator for Canada.

14
15 The *2024 Capital Budget Application* includes three projects and programs related to
16 street lighting. These include the *LED Street Lighting Replacement* project, *New*
17 *Street Lighting* program and *Replacement Street Lighting* program. The segregation
18 of capital expenditures based on these projects and programs has been in place
19 since the *2023 Capital Budget Application*. This segregation of historical
20 expenditures will lead to better forecasting of future expenditures going forward.

- 21
22 c) The *2024 Capital Budget Application* includes the use of historical expenditures,
23 including the 2022 expenditures, in the estimates for the 2024 new and replacement
24 programs.

³ The *2007 Capital Budget Guidelines* required the utility to determine whether there should be changes to the forecasting or capital budgeting process when the overall project variance in any two years exceed 10% of the budgeted total.