Use of Historical Averaging for Budget Estimates Report

Q. Page 7. Newfoundland Power states that it views its historical average approach as equivalent to extrapolation. Is there any difference between the two approaches? If not, why would Newfoundland Power present extrapolation as an alternative?

A. Of the alternative methodologies presented on page 7, Newfoundland Power views its own estimating methodology as most similar to extrapolation from actual costs. The use of the word "equivalent" was intended to reflect the possible variations within the extrapolation from actual costs methodology.

Variations within the extrapolation from actual cost methodology arise due to it being a broad approach that can be utilized in a variety of ways. For example, extrapolation may be viewed as a standalone estimating methodology, or as a subset of the analogy estimating methodology. There may also be differences in how estimates are prepared within the extrapolation methodology. For example, estimates may be completed using an Earned Value Model, which assesses a project based on the progress achieved.

Newfoundland Power's historical average approach serves essentially the same function as the extrapolation methodology, in that the Company uses known (i.e. historical) costs to project future costs for standard programs, using known and measurable forecast inputs from independent sources such as GDP inflation and customer connection forecasts.