

Q. Please describe in detail the capital budget process followed at Newfoundland Power, including the level of engineering review and design completed at each stage of project approval.

A. Newfoundland Power's capital budgeting process consists of two elements: an ongoing process whereby capital expenditure requirements are identified in the normal course of operations and an annual formal budget preparation process involving the prioritization and documentation of capital projects for corporate and regulatory approval.

At the departmental level, capital expenditure planning is an ongoing process whereby capital projects necessary to provide a safe, reliable and economic supply of electricity to customers are identified. Each department identifies expenditures required within their areas of responsibility, including expenditures necessary to meet the service requirements of new and existing customers, replace deteriorated plant, improve productivity, minimize costs and meet environmental, legal and regulatory requirements.

As a normal part of the management of each Company department, specific capital projects are identified and, where appropriate, engineering services are engaged to complete preliminary engineering reviews and design, prepare project estimates, provide appropriate project justifications and prepare engineering reports where required. The extent of the engineering effort undertaken in the initial stages is dependent on the size and nature of the project. For example, the extent of the documentation may vary from a one-page explanation justifying the replacement of a minor piece of deteriorated equipment to an engineering report justifying the addition of a power transformer. This initial level of documentation, in turn, provides the basis for the detailed engineering that is conducted following regulatory approval of the project.

The initial stage of the formal capital budget process usually begins in the 2nd quarter of each year, with the development of a budgeting schedule, including target dates for the completion of key milestones.

The first annual capital budget milestone is the completion and circulation of the customer and energy forecast followed by the substation load forecast. These forecasts underlie the development of such customer and load-related projects as Extensions, New Services, and Street Lighting.

The second milestone is the identification of specific projects to be included in the following year's capital budget. As part of this process, departmental managers make initial judgments as to those projects that are to be included, and ensure that appropriate justifications and engineering reports are completed.

The third milestone is a corporate-level review of the projects proposed for inclusion in the budget by departmental managers with specific responsibility for the capital budget. At this stage of the process, proposed projects are assigned justification categories and priority codes. The justification categories include customer driven requirements,

1 reliability, safety, environment and productivity requirements. Priority codes reflect the
2 level of business risk as well as such considerations as safety, and legislative and
3 regulatory requirements.
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5 The assigned justification categories and priority codes assist in ranking the projects in
6 terms of priority. Based on these rankings, projects are selected to comprise the first
7 formal draft of the capital budget.
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9 The next stage of the process consists of a more rigorous review and challenge by the
10 managers and the Company's executive. Further modifications may be made to the
11 budget based on the outcome of this final review stage.
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13 Once the final review has been completed, and the proposed budget has been approved
14 by the Company's executive, it is submitted to the Company's Board of Directors for
15 their approval.
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17 Following approval by the Company's Board of Directors, a capital budget application is
18 prepared for filing with the Public Utilities Board in accordance with the requirements of
19 the *Public Utilities Act*.