

- 1 **Q. What is the cause of the significant increase in the Additions to Real Property cost**
2 **category in the 2008 to 2011 time frame over historical levels (page 42 of 65,**
3 **Schedule B)?**
4
- 5 A. The average historical expenditure under the Additions to Real Property project from
6 2002 to 2006F is \$283,800. The projected average cost from 2008 to 2011 is \$233,000
7 which is actually below average historical levels.
8
- 9 The Additions to Real Property project is required to upgrade or replace equipment and
10 facilities due to failure or normal deterioration. The project is budgeted by (1) taking a
11 historical average of previous expenditures for unplanned failure (“unplanned failure”)
12 and (2) adding the cost of planned work for the year to address normal deterioration
13 (“planned work”). An example of unplanned failure is emergency roof repairs. An
14 example of planned work is the renovation of the Maintenance Center on Duffy Place.
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- 16 The *Exclusions* in Schedule B, page 43 of 65, Table 2 contain the planned work for
17 normal deterioration for that year. The *Adjusted Cost* reflects the historical expenditures
18 for unplanned failure.
19
- 20 The budget for 2007 Additions to Real Property project is \$100,000 which reflects the
21 historical average of previous expenditures for unplanned failure. The Company decided
22 to defer all planned work for this project in 2007 to mitigate upward cost pressures on the
23 overall capital budget due to the Rattling Brook Refurbishment project.
24
- 25 The 2008 to 2011 forecast reflects amounts for both unplanned failure and planned work.
26 For example, the proposed expenditure for 2008 contains planned work for the
27 Company’s Clarenville building parking lot and Duffy Place building improvements.