

1 Q. **Reference Application Rev. 1**

2 When an allowance is made for unforeseen items, what happens if approved funds are not  
3 spent? Could unforeseen items be paid for with funds from approved projects that are deferred  
4 or delayed rather than have the Board approve funding for the unknown?

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7 A. If Newfoundland and Labrador Hydro (“Hydro”) does not spend funds approved through the  
8 allowance for unforeseen items account, the funds are not expended otherwise and are not  
9 added to rate base.

10 The *Public Utilities Act* prohibits a utility from proceeding with the construction or purchase of  
11 improvements or additions to its property, where the costs exceed \$50,000, without prior  
12 approval of the Board of Commissioners of Public Utilities (“Board”). Generally, Hydro obtains  
13 such approval through the Capital Budget Application process or through supplemental capital  
14 budget applications. However, in certain circumstances it is impractical to make an application  
15 to the Board for approval of a supplemental capital expenditure. These circumstances include  
16 situations where Hydro needs to act expeditiously to deal with events affecting the electrical  
17 system and where any delay would have serious negative consequences; therefore, Hydro  
18 cannot wait for the specific approval of the Board. It is for these circumstances that Hydro  
19 applies annually for an Allowance for Unforeseen Items Account. This allows Hydro to spend, up  
20 to the approved amount, on capital purchases or construction that fit the criteria of an  
21 unforeseen item, without having to apply to the Board.

22 The key issue with respect to the Allowance for Unforeseen Items is the approval by the Board  
23 of Hydro’s ability to make capital expenditures in an expeditious manner, up to a specified level,  
24 without additional application. If the Board were to stipulate that unforeseen expenditures  
25 could be made only if there had been deferrals or delays in other projects, Hydro would be left  
26 with uncertainty as to the extent of its ability to proceed with capital expenditures for urgent  
27 matters.