

1 Q. Please explain the processes applied by Hydro for developing cost estimates for capital projects.
2 When using historical patterns to develop cost estimates, please discuss how Hydro combines
3 the province's past, current and forecast economic and demographic conditions when
4 developing these estimates.

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7 A. Cost estimates are developed through a variety of techniques such as the use of historical cost
8 patterns, budgetary pricing from vendors, etc. The information required to inform the cost
9 inputs are provided by numerous departments or divisions, depending on the nature of the
10 project and the areas of expertise involved. Cost estimates are detailed and documented in
11 Newfoundland and Labrador Hydro's ("Hydro") basis of estimate documents to allow for
12 effective monitoring and control in subsequent project phases and for variance analysis on
13 material differences in planned versus actual costs. The basis of estimate document is reviewed
14 and approved by the estimator, project manager, long-term asset planner, and discipline
15 manager.

16 The cost estimate is prepared in current year dollars taking into account direct and indirect
17 costs, as well as the source and amount of any cost recoveries (e.g., customer contributions or
18 government subsidies). Direct costs include cost related to labour (including overtime, if
19 applicable), materials, consultant's fees, equipment rental, travel costs, and contracts (e.g.,
20 support facilities, easements and surveys, project insurance, etc.). Indirect costs include costs
21 related to escalation, interest during construction, and contingency.¹

22 Project evaluation takes place prior to the completion of detailed estimates. It is at this stage
23 that Hydro determines whether the project is required taking into account a number of
24 considerations, including economic and demographic conditions.

¹ Contingency is applied on a line item basis within Hydro's estimating software to address risks associated with project execution.