



**Topic:** Project Costs

**Reference:** Section 4, 2008 Deferral Accounts, page 54, paragraph 256

**Request:**

With reference to Section 4, 2008 Deferral Accounts, page 54, paragraph 256, please provide a copy of the consultant report that confirmed that the direct costs of carrying out the project were prudent, accurate and complete.

**Response:**

As submitted in the AESO's letter of June 14, 2010, the Keephills-Ellerslie-Genesee ("KEG") unit transformers conversion cost review report ("KEG Report") should be treated as confidential information.

However, as proposed by IPCAA in its submission of June 28, 2010, the AESO has worked with Capital Power Corporation to prepare a redacted version of the KEG Report, which is provided as Attachment IPCAA.AESO-001. The redacted version discloses the methodology, analysis, and conclusions of the KEG Report but not the private, commercial, and confidential information of concern to Capital Power.

As well, IPCAA proposed that the AESO provide a comparison of the original cost estimate and the final costs for the project, by subcomponent, with variance explanation. The AESO provides the following comparison in response to IPCAA's proposal.

Cost Component	Estimate	Actual	Variance	
			\$	%
Primary contract for transformer conversion tap change	\$2,086,600	\$3,359,041	\$1,272,441	61.0%
Other contracts for site preparation, protection, control, and commissioning	\$654,800	\$612,500	(\$42,300)	(6.5%)
Engineering and administration	\$844,000	\$1,477,980	\$277,583	23.1%
Overhead (estimate 9%)	\$356,397			
Contingency (estimate 15%)	\$537,828	–	(\$537,828)	(100.0%)
Escalation	\$54,443	–	(\$54,443)	(100.0%)
<b>Total project cost</b>	<b>\$4,534,068</b>	<b>\$5,449,521</b>	<b>\$915,453</b>	<b>20.2%</b>
Revay and Associates review report	–	\$49,186	\$49,186	–
<b>Deferral account amounts</b>	<b>\$4,534,068</b>	<b>\$5,498,707</b>	<b>\$964,639</b>	<b>21.3%</b>

Note: Numbers may not add due to rounding.

Subcomponents for material and labour as suggested by IPCAA have not been provided, as materials comprise a very small portion of the contracts for the project and are on the order of less than 2% of actual costs.

The AESO notes that the total project cost variance of 20.2% over estimate is well within the  $\pm 30\%$  accuracy of the estimate. The predominant reason for the variance is the delay of the project from the original fall 2007 schedule to the spring of 2008, due in part to the failure of the spare generator transformer in a factory test. The rescheduling resulted in additional demobilization and remobilization costs as well as some re-engineering costs.