

1 **Q. DISTRIBUTION**2
3 **PUB 43.0**4 **B-25 Extensions**

5 **Per Table 2, the unit costs data for 2005F is based on total new customers of 3,771.**
6 **However, the number of new customers for 2005 is given as 3,161 in Note 4 of the**
7 **2005 Capital Expenditure Status report (Appendix A p.3 of 5).**

8
9 **Please explain the difference.**

10
11 **A. *General***

12 In accordance with the Provisional Capital Budget Application Guidelines issued by the
13 Board on June 2, 2005 (the "Provisional Guidelines"), Newfoundland Power has
14 attempted, where possible, to modify its capital budgeting process to accommodate the
15 goals of improved transparency and consistency in budgeting. For the Distribution
16 budget category, the Company has adopted a framework whereby budget estimates are
17 derived using one of three methods.

18
19 For projects where the nature and scope of the work could be determined at the time the
20 budget is prepared, budget estimates were based on detailed engineering assessments.
21 Such projects are typically directed at identified needs, and the work is capable of
22 advance planning and scheduling. The Distribution projects that were estimated in this
23 manner are the Distribution Reliability Initiative, Rebuild Distribution Lines and Feeder
24 Additions/Upgrades to Accommodate Growth.

25
26 For projects where it is not possible to determine the nature and scope of the work at the
27 time the budget is prepared, budget estimates are based either on unit cost information
28 derived from historical average expenditures, or on the basis of average historical costs
29 adjusted for inflation.

30
31 Average historical unit costs provide a measure of transparency to the budgeting process.
32 However, for unit costs to be an effective budgeting tool, two things are required: (1) a
33 base with predictive value from which a unit cost can be derived; and (2) a means of
34 forecasting changes to that base. Where information on which to base unit costs cannot
35 be determined or where unit costs are of limited predictive value, budget estimates are
36 based on average historical costs adjusted for inflation

37
38 The budget estimates for Extensions, Meters, *new* Services, and *new* Street Lights are
39 based on average historical unit costs.

40
41 For *replacement* Services, as noted in the response to PUB 46.0 NP, the actual number of
42 replacements is not tracked, and it is therefore not possible to derive the unit costs. For
43 *replacement* Street Lights, as noted in the response to PUB 48.0 NP, the unit cost per
44 replacement has no predictive value with respect to future replacement requirements. The
45 budget estimates for these items are based on the arithmetic average of historical

1 expenditures over the most recent 5-year period, adjusted for inflation. The budget
2 estimates for the Transformers and Reconstruction projects are derived using the same
3 method.
4

5 *Unit Costs and Customer Growth*

6 Prior to this year's capital budget process, Newfoundland Power based its expenditure
7 projections for Extensions (and for *new* Services) on the expected number of gross new
8 Domestic customer connections. Because of difficulties associated with the way General
9 Service customer connections had been tracked historically, reliable data for new
10 connections of General Service customers was not available. Gross new Domestic
11 customer connection data was readily available, and provided a reasonable proxy for
12 establishing unit costs.
13

14 In an effort to provide an improved basis for estimating budget requirements using unit
15 costs, the Company implemented changes this year in its tracking of General Service
16 customer connections. Those changes make it possible to track connections of General
17 Service customers in *new* serviced premises separately from connections of General
18 Service customers in *existing* premises. As a result, the Company was able to obtain a
19 more accurate count of new connections for General Service customers. Further, by
20 taking advantage of changes in the Customer Service System that had been implemented
21 several years ago, it was also possible to obtain historical information on new General
22 Service customer connections. With this better information, including restated historical
23 unit cost information, the Company was able to base its unit cost calculations for the
24 Extensions project, and for the *new* services component of the Services project on *total*
25 new customer connections (Domestic and General Service).
26

27 *The Difference Explained*

28 The difference between the forecast number of 3,771 customers upon which the unit cost
29 for 2005F shown in Table 2, page 26, Schedule B is based and the forecast number of
30 3,161 customers referenced in the *2005 Capital Expenditure Status Report* reflects the
31 change in the method for deriving unit costs for the Extensions project as described
32 above.
33

34 For consistency with the 2005 Capital Budget Application as filed, the explanation
35 provided in the *2005 Capital Expenditure Status Report* is based on the number of gross
36 new Domestic customer connections (3,161), which is the basis on which the 2005 budget
37 estimate was derived.
38

39 The 3,771 new customer connections on which the forecast 2005 unit costs shown in
40 Table 2, page 26, Schedule B are based include both Domestic and General Service
41 customer connections.