

Q. NP states that the average forecast expenditure of approximately \$83 million “...for the next 5 years is consistent on an inflation adjusted basis with that in the period 2007 through 2011”. Please provide justification for this statement including the rates of actual and forecast rates of inflation used in the calculations and the sources of this information.

A. Table 1 provides Newfoundland Power’s actual annual capital expenditures from 2004 through 2010 and forecast capital expenditures for 2011, expressed in actual dollars and adjusted for inflation (“2011 \$”).

Table 1
Expenditure 2007 – 2011F
(\$000’s)

	2007	2008	2009	2010	2011F
Actual	68,485	63,170	70,037	73,580	75,708
2011 \$	76,577	68,606	73,273	75,944	75,708

The Company's total inflation-adjusted capital expenditure over this 5-year period is \$370,108,000.

Table 2 provides Newfoundland Power’s forecast annual capital expenditures from 2012 through 2016, expressed in actual dollars and adjusted for inflation.

Table 2
Expenditure 2012F – 2016F
(\$000’s)

	2012F	2013F	2014F	2015F	2016F
Actual	77,293	79,611	88,086	86,397	85,176
2011 \$	74,882	74,790	80,270	76,359	73,004

The Company's total inflation-adjusted capital expenditure over this 5-year period is forecast to be \$379,305,000. On an inflation-adjusted basis, this level of expenditure is consistent with expenditure over the past five years.

Newfoundland Power determined the inflation-adjusted capital expenditure amounts provided in Tables 1 and 2 by applying inflation rates in each year separately to labour and non-labour costs. Table 3 provides the inflation rate data used.

Table 3
Inflation Rates

	Labour		Non-Labour	
	Index	Change	Index	Change
2007	0.880		0.903	
2008	0.906	3.0%	0.933	3.3%
2009	0.934	3.0%	0.975	4.5%
2010	0.962	3.0%	0.975	0.0%
2011F	1.000	4.0%	1.000	2.6%
2012F	1.040	4.0%	1.025	2.5%
2013F	1.082	4.0%	1.048	2.2%
2014F	1.125	4.0%	1.071	2.2%
2015F	1.170	4.0%	1.094	2.2%
2016F	1.217	4.0%	1.117	2.1%

Inflation rates applied to labour costs reflect Newfoundland Power's Powerline Technician labour rates with the 2011 increase extended to future years. Inflation rates applied to non-labour costs reflect the annual GDP Deflator provided by the *Conference Board of Canada*, an independent forecast service.