

1 Q. **Reference: Application, Schedule 6, Thermal In-Service Failures (2024)**

2 It is stated (page 6)

3 As Hydro cannot predict the quantity and the nature of failures to be addressed
4 within this program for future years, Hydro has forecast future expenditures for
5 this program based on the 2023 program budget with cost escalation applied.

6 a) On page 5 it is stated

7 The estimate is based on the average expenditures from 2020
8 to 2022.

9 Please reconcile that statement with the statement that the estimate is obtained by
10 escalating the 2023 program budget.

11 b) In percentage terms, what is the cost escalation that was applied? How does that
12 compare to Hydro's expectation of inflation? Please explain Hydro's method for
13 determining its cost escalation adjustment in this case.

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16 A. a) The statement on page 5 of the Thermal In-Service Failures (2024) program proposal refers
17 to the method used to obtain the 2024 estimate.¹ This was done as an average of the 2020–
18 2022 actual expenditures. The future years, as referenced on lines 3-5 of page 6, refer to the
19 method for obtaining the estimate for years 2025-2028. Newfoundland and Labrador Hydro
20 (“Hydro”) notes there is an error in this sentence and it should read:

21 As Hydro cannot predict the quantity and the nature of failures to be addressed
22 within this program for future years, Hydro has forecast future expenditures for
23 this program based on the **2024** program budget with cost escalation applied.²
24 [emphasis added]

¹ “2024 Capital Budget Application,” Newfoundland and Labrador Hydro, rev. August 18, 2023 (originally filed July 12, 2023), sch. 6, prog. 9, p. 5.

² “2024 Capital Budget Application,” Newfoundland and Labrador Hydro, rev. August 18, 2023 (originally filed July 12, 2023), sch. 6, prog. 9, p. 6.

- 1 **b)** The cost escalation applied was 2% per year. Hydro's expectation of inflation, per corporate
- 2 assumptions, was at 2%. Hydro determined 2% escalation was appropriate based on its
- 3 alignment with corporate forecast planning data for the Canadian Consumer Price Index.