

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

2 a) It is stated (page 5)

3 The estimate is based on the average expenditures from 2019  
4 to 2021. The expenditures in 2022 were not included, as this  
5 year is considered an outlier...

6 Is it normal practice for Hydro to remove outliers from time trends when estimating  
7 future costs.?

8 b) Please explain how the expenditures in the years 2019 to 2021 and 2023 program  
9 budget were used to determine the 2024 program cost estimate.

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12 A. a) Generally, Newfoundland and Labrador Hydro (“Hydro”) does not remove data points when  
13 determining its average expenditures for budgeting purposes; however, Hydro has viewed  
14 certain high expenditures contained within in-service failure programs to be outliers and not  
15 representative of expected future expenditures. In these cases, Hydro has removed the  
16 outlier year from the average to ensure the budget proposal request reflects what Hydro  
17 believes to be most accurate. In the case of the Terminal Station In-Service Failures program  
18 in 2022, this outlier was related to a generator step-up transformer failure. These  
19 transformers are a high-cost expenditure item that would inflate the budget for that year.  
20 Typically, should a high-cost asset fail and be addressed under in-service failure, Hydro  
21 would evaluate the likelihood of a similar failure and incorporate it into the average  
22 estimate where appropriate.

23 b) Hydro used the three-year average of the actual expenditures from 2019 to 2021 to develop  
24 the program estimate for the 2024 iteration of the Terminal Station In-Service Failures

1 program. As the execution of the 2023 program has not yet concluded, the estimate as  
2 approved in the 2023 Capital Budget Application<sup>1</sup> was not included in the average.

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<sup>1</sup> "2023 Capital Budget Application," Newfoundland and Labrador Hydro, July 13, 2022 was approved as per *Public Utilities Act*, RSNL 1990, c P-47, Board Order No. P.U. 2(2023), January 26, 2023.