Q. **Reference: Application, 2027 Capital Budget Overview, page 2**

It is stated "*Increased capital expenditures in recent years primarily reflects ongoing inflation as well as increased renewal-driven expenditures…*" Does Hydro expect that its unit costs of labour, material and equipment will increase with the general rate of inflation (e.g., GDP deflator) in 2027 and to 2031, or at a significantly different rate?

A. Chart 1 demonstrates Newfoundland and Labrador Hydro's ("Hydro") 2019 Capital Expenditures escalated by inflation in relation to actual and forecast expenditures through 2027. Hydro has generally maintained capital costs in line with inflation from 2019 to 2023. Expenditures remain in line with inflation when major projects are excluded from 2024 through 2027.

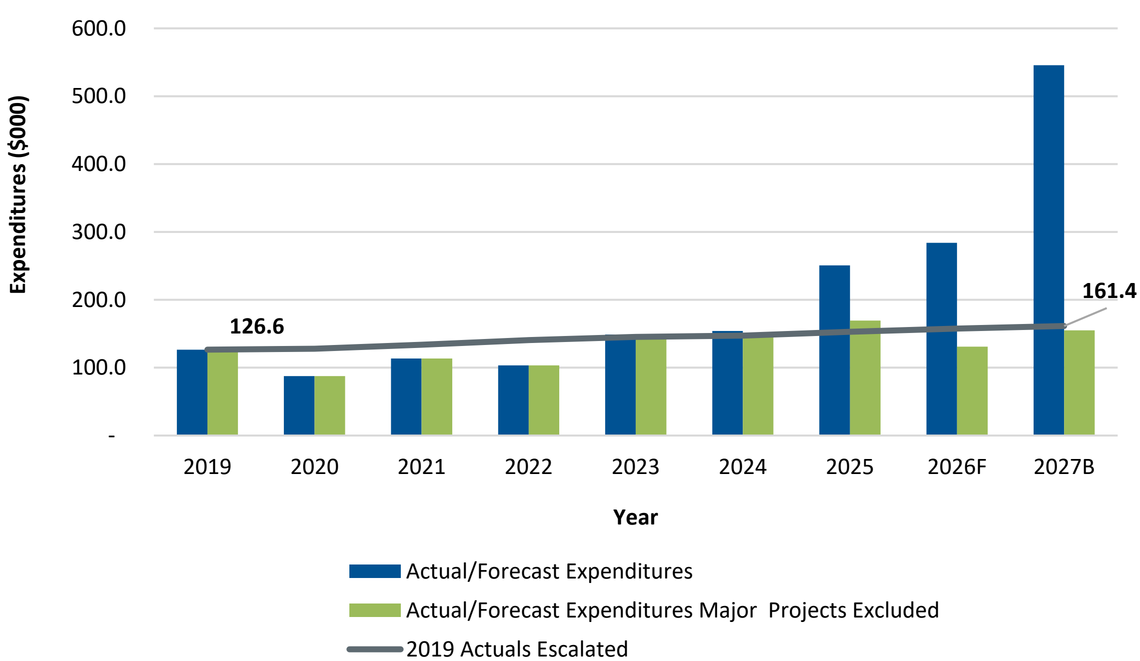

Chart 1: Capital Expenditures 2019 Through 2027

There are many factors that impact cost pressures, of which inflation is one. There are instances where cost factors such as contract/labour pricing and procurement are responsible for driving costs of specific projects and programs to exceed the current general rate of inflation. This is a function of market conditions and may be driven by market demand and availability. For example, the cost to install a 65-foot pole in 2021 was approximately $2,000; installation costs for the same equipment in 2025 escalated to greater than $24,000.