

- 1 **Q. (Reference Application, 2024 – 2028 Capital Plan, page 6) It is stated**
 2 **"Inflationary pressures on materials also increased following the COVID-19**
 3 **pandemic."**
 4 **a) In the post-COVID-19 period of 2024-2028 does inflation continue to be**
 5 **material?**
 6 **b) How has inflation impacted the costs included in NP's 2024 capital budget**
 7 **application?**
 8 **c) Does NP (or its sources) believe that inflation is a continuing problem?**
 9 **d) Please provide NP's forecast of inflation used in the Application.**
 10 **e) Please provide the Conference Board of Canada's latest forecasts of the**
 11 **annual percentage increase in (i) the Canada GDP deflator for 2024 to 2028**
 12 **and (ii) the Business Non-residential Structures, Machinery and Equipment**
 13 **component of the GDP deflator for 2024 to 2028.**

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 15 **A.** a) Newfoundland Power relies on inflation forecasts prepared by the Conference Board
 16 of Canada ("CBOC") for its non-labour costs.¹ For 2024 through 2028, the CBOC is
 17 forecasting an average annual increase of 1.70% for GDP.
 18
 19 b) Newfoundland Power's annual capital budget application includes a combination of
 20 recurring programs and specific projects. Inflation impacts the budget amounts for
 21 programs and projects differently.

22
 23 The Company's programs are capital investments composed of high volume,
 24 repetitive, like-for-like capital replacements, enhancements, or additions where
 25 budgets are renewed annually. The *2024 Capital Budget Application* includes 20
 26 programs that are based on the most recent five-year period of expenditures,
 27 adjusted for inflation.² The inflation adjustment incorporates the GDP Deflator for
 28 Canada for non-labour costs and the Company's internal labour inflation rate for
 29 labour costs.³ The total 2024 capital budget amount related to the inflation
 30 adjustments for these 20 programs is approximately \$5 million.⁴

31
 32 Projects are capital investments that are typically non-repetitive in nature and
 33 include defined budgets. Project budgets are based on detailed engineering
 34 estimates, including third party material and contract labour cost estimates. These
 35 cost estimates are generally based on recent cost history or vendor quotes. While
 36 material and contract labour costs may increase annually, projects and project
 37 scopes vary from year to year. As a result, Newfoundland Power cannot reasonably

¹ In Order No. P.U. 36 (1998-1999), the Board ordered the adoption of the GDP Deflator for Canada as an appropriate inflation index for forecasting Newfoundland Power's non-labour expenses.

² Of the 20 inflation-adjusted programs included in the 2024 Capital Budget Application, nine are below the \$750,000 threshold.

³ That is, the historical expenditures are expressed in current-year dollars (i.e. 2023) for the purposes of determining the 2024 budget year estimate. The inflation adjusted five-year average of expenditures is then multiplied by 2024 inflation rates to determine the 2024 capital budget amounts.

⁴ To remove the impacts of inflation on the programs in Newfoundland Power's *2024 Capital Budget Application* the five-year historic costs were not adjusted for inflation, and inflation was not applied to the historical average to calculate the 2024 budget amount.

- 1 determine the impact that inflation associated with projects has had on the total
 2 2024 capital budget amount.
 3
 4 c) Inflation impacts the Company's costs annually, which is expected to continue over
 5 the long-term. The weighted inflation rates used in developing the 2024 to 2028
 6 capital plan figures were 2.27%, 1.80%, 1.86%, 2.02% and 2.10%, respectively.⁵
 7
 8 d) See part c).
 9
 10 e) Table 1 provides the CBOC's latest forecasts of the annual percentage increase from
 11 2024 to 2028 for the Canada GDP deflator and the Business Non-residential
 12 Structures, Machinery and Equipment component of the GDP deflator.⁶

Table 1 Conference Board of Canada Deflators Annual Percentage Increase		
Year	Canada GDP	Business Non-Residential Structures, Machinery and Equipment
2024	1.95%	0.03%
2025	1.63%	0.08%
2026	1.63%	0.09%
2027	1.66%	0.09%
2028	1.84%	0.09%

- 13 In Order No. P.U. 36 (1998-1999), the Board ordered the adoption of the GDP
 14 Deflator for Canada as an appropriate inflation index for forecasting Newfoundland
 15 Power's non-labour expenses.

⁵ Newfoundland Power determines inflation-adjusted calculations using its internal labour rates for labour costs and the GDP Deflator for Canada for its non-labour costs.

⁶ For 2024 through 2028, the CBOC is forecasting an average annual GDP increase of 1.74% in its release on August 2, 2023. This is consistent with the average annual GDP increase of 1.70% in its release on February 7, 2023 used in preparing the *2024 Capital Budget Application*.