

- 1 **Q.** (Reference Application Schedule B, Relocate/Replace Distribution Lines for  
 2 Third Parties, page 38) It is stated that the 2024 budget of \$4,066,000 for this  
 3 program is based on a “historical average” of the annual costs of the program  
 4 from 2019 to forecast 2023.
- 5 a) Table 1 (page 39) indicates that the 2019 cost for the program, at  
 6 \$5,192,000 was significantly higher than in any of the other years used to  
 7 calculate the historical average. Moreover, NP’s 2023 CBA (Schedule B,  
 8 page 47) reported the program’s 2018 annual cost at \$2,496,000. (i) Why  
 9 was the 2019 cost so much higher than in 2018, 2020, 2021, 2022 and  
 10 2023F? (ii) Did NP consider adjusting its 2024 cost to take into account the  
 11 fact that 2019 was an outlier? (iii) If the years 2020, 2021, 2022 and 2023F  
 12 had been used to determine the historical average, what would have been  
 13 the resulting cost figure for 2024?
- 14 b) (i) Please confirm, based on a program cost in 2023 of \$3,803,000 and a  
 15 2024 budget of \$4,066,000, that NP is seeking a 6.9% increase for this  
 16 program for 2024. (ii) What is Conference Board of Canada’s forecast for  
 17 inflation for 2024? (iii) Does NP have any evidence specifically related to  
 18 this program that suggests that its cost will increase by more than the rate  
 19 of inflation in 2024?
- 20
- 21 **A.** a) (i) Expenditures were higher in 2019 due to an increase in the capital programs of  
 22 the Company’s joint use partners, Bell Aliant and Rogers Communications, which  
 23 resulted in an increase in third-party requests.<sup>1</sup>
- 24
- 25 (ii) Yes, Newfoundland Power considered adjusting the calculation of the historical  
 26 average used to determine the 2024 budget amount for the *Relocate/Replace*  
 27 *Distribution Lines for Third Parties* program. Table 1 compares the 2021 and  
 28 2022 budget to actual expenditures. The 2019 actual expenditures were  
 29 included in the historical average used to determine the budget amounts for both  
 30 years.

Table 1 Relocate/Replace Distribution Lines for Third Parties Program Historical Expenditures Analysis (\$000s)		
	2021	2022
Budget	3,155	3,370
Actual	3,060	3,055
Variance	(95)	(315)
Variance (%)	-3%	-9%

<sup>1</sup> See Newfoundland Power’s 2024 Capital Budget Application, Schedule B, page 40, footnote 34.

1 Based on the reasonable variances incurred in both 2021 and 2022, the  
2 Company decided not to adjust the calculation of the 2024 budget amount.  
3

4 (iii) If the years 2020, 2021, 2022 and 2023F had been used to determine the  
5 historical average, the 2024 budget for *Relocate/Replace Distribution Lines for*  
6 *Third Parties* program would be \$3,497,000. However, this does not reflect a  
7 realistic expectation of expenditures related to third party obligations.  
8

9 Actual third-party expenditures tend to be a collection of individual work scopes  
10 that arise throughout the year. For example, in 2019, there were eight individual  
11 work scopes over \$200,000 accounting for approximately 80% of the total  
12 expenditure. Similarly, in 2022, there were four individual work scopes over  
13 \$200,000 accounting for approximately 60% of the total expenditure. The  
14 nature of these individual work scopes is such that a small increase in third-party  
15 activity can create significant variances between budget estimates and actual  
16 expenditures in the *Relocate/Replace Distribution Lines for Third Parties*  
17 program.  
18

19 b) (i) It is confirmed.  
20

21 (ii) The Conference Board of Canada is forecasting an inflationary increase of 2.05%  
22 for 2024.  
23

24 (iii) The *Relocate/Replace Distribution Lines for Third Parties* program is necessary to  
25 accommodate third-party requests to relocate or replace distribution lines. The  
26 relocation or replacement of distribution lines results from: (i) work initiated by  
27 municipal, provincial and federal governments; (ii) work initiated by  
28 telecommunications companies; and (iii) requests from customers.<sup>2</sup>  
29

30 The budget for the *Relocate/Replace Distribution Lines for Third Parties* program  
31 is based on a historical average. Historical annual expenditures for this program  
32 over the most recent five-year period are expressed in current-year dollars  
33 ("Adjusted Costs"). The estimate for the budget year is calculated by taking the  
34 average of the Adjusted Costs (\$3,969,000) and inflating it using the GDP  
35 Deflator for Canada for non-labour costs and the Company's internal labour  
36 inflation rate for labour costs.<sup>3</sup>

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<sup>2</sup> Also included is distribution work associated with the installation and relocation of communications cables used by the Company's various protection and control systems.

<sup>3</sup> Effective 2023, labour costs associated with this program include a direct allocation of amounts previously included in *General Expenses Capitalized*, as approved in Order No. P.U. 3 (2022).

1 Table 2 shows annual expenditures for the *Relocate/Replace Distribution Lines*  
 2 *for Third Parties* program from 2019 to 2024, the Adjusted Costs and the five-  
 3 year historical average.

Table 2 Relocate/Replace Distribution Lines for Third Parties Program Historical Expenditures (000s)							
Cost	2019	2020	2021	2022	2023F	Average	2024F
Total	\$5,192	\$2,745	\$3,060	\$3,055	\$3,803		\$4,066
Adjusted <sup>1</sup>	\$6,189	\$3,219	\$3,407	\$3,227	\$3,803	\$3,969	

<sup>1</sup> 2023 dollars.

4 The increase from the five-year average of \$3,969,000 to \$4,066,000 is 2.4%.  
 5 This includes the GDP Deflator and the Company's internal labour inflation rate.  
 6 Approximately 4.4% is attributable to the difference between the average of the  
 7 Adjusted Costs (\$3,969,000) and the 2023 forecast cost (\$3,803,000).