

- 1 **Q. (Reference Application Schedule B, Extensions, page 26)**  
2 **a) With annual expenditures exceeding \$12 million on the Extensions program**  
3 **why has NP not developed an engineering and cost-based means of**  
4 **forecasting average cost per connection?**  
5 **b) Does NP’s method of forecasting based on historical average cost per**  
6 **connection take into account any trend in productivity?**  
7 **c) In Table 1 what method is used to arrive at “Adjusted Cost”? Specifically, is**  
8 **the Canada GDP deflator applied to the nominal 2019 to 2023 values to**  
9 **obtain Adjusted Costs?**  
10 **d) Table 1 shows a strong downward trend in inflation adjusted cost per**  
11 **connection (Cost/Customer) from 2019 to 2022. What explanation can NP**  
12 **offer for that trend?**  
13 **e) Table 1 implies an 11.4% real increase (i.e., excluding inflation) in the 2023**  
14 **Cost/Customer compared to 2022 (based on \$5,541 for 2023 compared to**  
15 **\$4,974 for 2022). Has NP investigated whether this large increase is an**  
16 **anomaly and whether the downward trend may continue after 2023?**  
17 **f) In Table 1, the forecast value of the 2024 Cost/Customer is \$5,913.**  
18 **(i) Please confirm that \$5,913 represents a 6.7% increase in 2024 over**  
19 **the previous year’s forecast value of \$5,541.**  
20 **(ii) Based on the GDP deflator, what is the Conference Board of Canada’s**  
21 **forecast of the inflation rate in 2024?**  
22 **(iii) Does NP have any evidence specifically related to this program that**  
23 **suggests that the Cost/Customer will increase by more than the rate**  
24 **of inflation in 2024?**
- 25
- 26 **A. a) The *Extensions* program involves construction of primary and secondary distribution**  
27 **lines to connect new customers to the electrical system. The program also**  
28 **incorporates upgrades to the capacity of existing lines to accommodate customers’**  
29 **increased electrical system loads. The *Extensions* program is driven by factors such**  
30 **as customer service requests, third-party infrastructure development and mandated**  
31 **service obligations. Preparing an engineering estimate for this program would**  
32 **require Newfoundland Power to be aware of the specific number and nature of line**  
33 **extensions to be undertaken in advance of the requests being received. As a result,**  
34 **Newfoundland Power uses an historical average methodology to estimate program**  
35 **expenditures.**
- 36
- 37 **b) The historical average methodology is based on actual spending in the program over**  
38 **the preceding five-year period. Any trend in productivity will be captured in the**  
39 **increase or decrease of actual expenditures in the years the productivity change**  
40 **occurs.**
- 41
- 42 **c) The calculation applies the GDP Deflator for Canada as the inflation rate for non-**  
43 **labour costs and the Company’s internal labour inflation rate for labour costs to the**  
44 **nominal 2019 to 2023 values to obtain Adjusted Costs estimates.**
- 45
- 46 **d) The downward trend of costs per customer from 2019 to 2022 may have been**  
47 **attributed to new customer connections in previously constructed residential**

1 developments in prior years. Additionally, the variability in residential housing  
 2 densities impacts the utility infrastructure necessary to serve customers.<sup>1</sup> Finally,  
 3 the mix between Domestic and General Service customers can impact the cost per  
 4 customer in a given year.<sup>2</sup>

5  
 6 e) No, Newfoundland Power has not investigated whether this large increase is an  
 7 anomaly and whether the downward trend may continue after 2023. It is difficult to  
 8 observe that any real trend in the cost per customer based upon the variation in  
 9 number of customer connections and total expenditures over the period.

10  
 11 f) (i) It is confirmed.

12  
 13 (ii) The Conference Board of Canada is forecasting an inflationary increase of 2.05%  
 14 for 2024.

15  
 16 (iii) The budget for the *Extensions* program is based on a historical average.  
 17 Historical annual expenditures under this program for the most recent five-year  
 18 period are expressed in current-year dollars ("Adjusted Costs"). The estimate  
 19 for the budget year is calculated by taking the average of the Adjusted Costs  
 20 (\$13,505,000), dividing by the number of new customers to derive a Cost per  
 21 Customer and inflating it using the GDP Deflator for Canada for non-labour  
 22 costs and the Company's internal labour inflation rate for labour costs.

23  
 24 Table 1 shows annual expenditures for the *Extensions* program from 2019 to  
 25 2024, the Adjusted Costs, the five-year historical average, the number of  
 26 customers connected, and cost per customer.

Table 1 Extensions Program Cost per Customer							
	2019	2020	2021	2022	2023F	Average	2024F
Total Cost (000s)	\$13,379	\$10,561	\$12,427	\$12,489	\$12,218		\$12,140
Adjusted Cost (000s) <sup>1</sup>	\$15,956	\$12,394	\$13,798	\$13,161	\$12,218	\$13,505	
New Customers	2,379	2,062	2,448	2,646	2,205	2,348	2,053
Cost/Customer <sup>1</sup>	\$6,707	\$6,011	\$5,636	\$4,974	\$5,541	\$5,774	\$5,913

<sup>1</sup> 2023 dollars.

<sup>1</sup> High density, urban developments require less distribution utility infrastructure than dispersed, rural developments.

<sup>2</sup> General Service customers typically have larger load requirements which require additional distribution utility infrastructure compared to Domestic customers.

- 1           The increase from the five-year average Cost per Customer of \$5,774 to \$5,913
- 2           is 2.4%. This includes the GDP Deflator and the Company's internal labour
- 3           inflation rate. Approximately 4.2% is attributable to the difference between the
- 4           average of the Adjusted Costs (\$5,774) and the 2023 forecast cost (\$5,541).