

- 1 **Q.** (Reference 2022 Capital Expenditure Report, Appendix A, General Expenses  
 2 Capitalized, page 7 of 8) It is stated "*In 2022, actual capital expenditures for*  
 3 *General Expenses Capitalized were \$659,000, or 10%, higher than the budget*  
 4 *estimate resulting primarily from inflationary increases and additional labour*  
 5 *costs for capital planning.*"
- 6 a) Was NP not aware of inflationary increases and labour costs for capital  
 7 planning when it prepared the budget estimate?
- 8 b) What inflation rate did NP assume in the budget estimate and how does it  
 9 compare to actual inflation?
- 10 c) What labour costs for capital planning did NP assume in the budget  
 11 estimate and how does it compare to the actual cost incurred? Please  
 12 provide a breakdown of the budget for this project compared to actual costs  
 13 incurred.
- 14
- 15 **A.** a) Newfoundland Power has historically estimated a flat amount for the General  
 16 Expenses Capitalized ("GEC") budget estimate. At the time the *2022 Capital Budget*  
 17 *Application* was prepared in the spring of 2021, no major differences were known for  
 18 2022 compared to 2021. As such, the budget estimate of \$6.5 million was  
 19 unchanged from the estimate included in the *2021 Capital Budget Application*. For  
 20 that reason, a specific inflation adjustment was not used to determine the 2022  
 21 budget estimate.
- 22
- 23 Since that time, activities related to capital planning, such as capital budget  
 24 processes, have increased significantly. Further, the Company began its asset  
 25 management review in the fall of 2022. Inflation was also high over 2021 and 2022  
 26 with the GDP Deflator for Canada totalling almost 9% over that period.
- 27
- 28 b) See part a).
- 29
- 30 c) See Table 1.

Table 1 GEC 2022 Budget vs. Actual			
	Budget Estimate	2022 Actual	Difference
Capital Planning	806	1,108	302
Operating Supervision	553	648	95
Tools, Equipment and Safety Clothing	735	836	101
System Operations	630	681	51
Non-Construction Activities <sup>1</sup>	3,776	3,886	110
<b>Total</b>	<b>6,500</b>	<b>7,159</b>	<b>659</b>

<sup>1</sup> Primarily pension costs.