

1 **Q. (Reference Technical Conference) In cases where the historical averaging**  
 2 **method for determining CBA expenditures outlier years occur from time to time**  
 3 **and in some programs/projects more than others. Has Newfoundland Power**  
 4 **considered addressing the impact of outlier years in a systematic way such as**  
 5 **(i) using a six-year average, (ii) using a weighted average with greatest weight**  
 6 **to the most recent years, (iii) aggregating similar programs/projects or (iv)**  
 7 **identifying outliers and excluding them according to some reasonable criteria?**  
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9 A. Newfoundland Power's use of historical averages for estimating budget expenditures has  
 10 been in place for over two decades.<sup>1</sup> Historical averages are used to forecast programs  
 11 related to customer load and connection growth, third party requests and programs  
 12 related to patterns of repair and replacement that are high volume. In all cases, the  
 13 factors driving the work are either: (i) the number of requests received from customers,  
 14 joint use partners, municipalities or government; (ii) the number of deficiencies that are  
 15 identified through inspection; or (iii) the number of in-service failures that occur. There  
 16 is a high level of uncertainty in these variables in advance of the budget year. The work  
 17 is typically either of a mandatory nature, in light of the statutory obligation to connect  
 18 new customers, or includes customer contributions to offset costs.  
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20 Newfoundland Power routinely identifies outliers and adjusts when deemed reasonable.  
 21 At times, outliers in the historical data have been excluded from the Company's  
 22 calculation of averages. In addition, material one-time expenditures that have been  
 23 identified in advance are added to the budget amount for the upcoming capital budget  
 24 year.<sup>2</sup> In the 2019 to 2022 capital budget applications, there were a total of 16 projects  
 25 where these adjustments were made.<sup>3</sup> For these 16 projects, the adjustments made  
 26 were consistent from year to year and addressed similar items. With the  
 27 implementation of the Provisional Guidelines, effective for the *2023 Capital Budget*  
 28 *Application*, Newfoundland Power adjusted its historical average to include these similar  
 29 items. This was due to the fact that the pattern of exclusion demonstrated that the  
 30 same items were being excluded year-over-year and, as such, they were no longer  
 31 unique outliers.  
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33 Newfoundland Power has not considered using a six-year average, using a weighted  
 34 average, or aggregating similar programs/projects as suggested in this Request for  
 35 Information.

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<sup>1</sup> The *2007 Capital Budget Application Guidelines* established the use of historical spending for estimating Pooled projects and historical patterns of repair and replacement for estimating Normal capital projects.

<sup>2</sup> For example, Newfoundland Power plans to procure energized conductor support tools as indicated in *Schedule C* of the *2024 Capital Budget Application*. The scope and cost of these tools was such that they were excluded from the *Tools and Equipment* program budget and presented as a separate project.

<sup>3</sup> In each year from 2019 to 2022, the *Street Lighting*, *Relocate/Replace Distribution Lines for Third Parties*, *Tools and Equipment* and *Additions to Real Property* projects had adjustments made to address outliers.

1 Newfoundland Power has reviewed the capital budget filings in other Canadian  
 2 jurisdictions where annual capital budgets are filed.<sup>4</sup> All reviewed Canadian electrical  
 3 utilities that files an annual capital budget utilize historical averages.  
 4

5 Table 1 below summarizes the use of historical average by these other Canadian  
 6 utilities.

Table 1 Other Canadian Utilities Use of Historical Expenditures		
Utility	Project/Program Description	Historical Period
Nova Scotia Power	One program related to joint use work and three programs related to upgrading distribution infrastructure to serve new customers.	Both three-year and five-year averages with annual inflation.
Maritime Electric	Programs related to extensions, overhead and underground services, street lighting, replacements due to road alterations, and replacements due to storms, fires and collisions.	Five-year averages normalized for budget year with annual inflation.
Newfoundland and Labrador Hydro	Programs related to service extensions and in-service failures (thermal generation, hydraulic generation, terminal stations, and distribution systems and street lights).	Three-year averages

7 In Newfoundland Power's view, historical data averaged over a relevant period of time is  
 8 a reasonable way of forecasting expenditures in the budget year in light of the inherent  
 9 uncertainties in the underlying drivers of the work. The Company notes that actual  
 10 expenditures incurred for all of these programs are directly attributable to the actual  
 11 work that occurs in the year and are not driven by the budget estimates.

<sup>4</sup> According to the research completed by Midgard Consulting Incorporated for the Board and the Consumer Advocate, the only utilities that file annual capital budget applications are Nova Scotia Power, Maritime Electric, Newfoundland and Labrador Hydro and Newfoundland Power.