Q. (Reference Application, Schedule B, Table 1, page 17)

a) With annual expenditures exceeding $13.4 million on the Extensions program why has NP not developed an engineering and cost-based means of forecasting average cost per connection?

b) Why was the cost per customer for extensions so high in 2023 relative to the other years? Is it appropriate to remove this figure from the calculation of the average?

c) The $6,037 cost per connection for 2025 is 6.5% higher than the 2024F cost of $5,670. (i) How does that percentage increase compare to the inflation forecast based on the GDP deflator? (ii) Does NP have any information that justifies such a large increase in cost per connection relative to inflation?

A. a) The *Extensions* program involves construction of primary and secondary distribution lines to connect new customers to the electrical system. The program also incorporates upgrades to the capacity of existing lines to accommodate increased electrical system loads for customers. The *Extensions* program is driven by factors such as: (i) customer service requests; (ii) third-party infrastructure development; and, (iii) mandated service obligations. Preparing an engineering and cost-based estimate for this program would require Newfoundland Power to be aware of the specific number and nature of line extensions to be undertaken in advance of the requests being received. As a result, Newfoundland Power uses a historical average methodology to determine a reasonable estimate of program expenditures.

b) It is appropriate to include the 2023 actual costs in the calculation of the historical average as it reasonably reflects the annual capital work requirements for this capital program.

The cost of the *Extensions* program was $15.1 million in 2023 compared to the budget of $12.2 million.[1] This variance was the result of higher material and contractor labour costs.[2] There was also an increase in the number of large-scale extensions required to connect customers. These cost increases resulted in a higher cost per customer connection in 2023.

The cost increases in 2023 will continue to be applicable in the 2025 budget year. Actual expenditures for the *Extensions* program vary year over year depending on the number of new customer connections, including the potential for additional large-scale extensions in any given year.

c) (i) Forecast GDP inflation for 2025 is 1.6%, or 4.9% lower than the 6.5% increase over the 2024 forecast cost per connection.[3]

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1 See Newfoundland Power's *2025 Capital Budget Application, 2023 Capital Expenditure Report*, page 7.

2 The cost of pole materials increased by an average of approximately 15%. Also, in 2023, Newfoundland Power entered into a new contract for pole installation services which resulted in a 23% increase in contract labour costs.

3 Based on the GDP forecast in the Conference Board of Canada's data release in February 2024.

Newfoundland Power calculates its inflationary increases using the Company's internal weighted-labour inflation rate for its labour costs and the GDP Deflator for Canada for its non-labour costs. It applies that increase to the five-year average of adjusted costs.[4] The 2025 capital budget for the *Extensions* program also considers new customer connections.

Overall, the 2025 *Extensions* program budget is determined consistent with the Company's longstanding historical average approach, providing for a reasonable 2025 capital budget amount.

(ii) See part c) (i).

[4] The Company considers its internal labour inflation rate to be the most appropriate measure of inflationary increases for its labour costs. Newfoundland Power applies this methodology in both its annual capital budgets and its general rate applications. It is a longstanding practice that provides for more accurate budget estimates for both capital and operating.