

1 **Q. (Reference Application, Schedule B, Table 1, page 20)**

2 **a) Why was the cost of the reconstruction program so high in 2023? Is it**
 3 **appropriate to remove this figure from the calculation of the average? Did**
 4 **NP consider removing it from the calculation of the historical average?**

5 **b) The proposed cost for 2025 of \$7.425 million is 6.8% higher than the**
 6 **2024F cost of \$6.953 million. (i) How does that percentage increase**
 7 **compare to the inflation forecast based on the GDP deflator? (ii) Does NP**
 8 **have any information that justifies such a large increase in cost relative to**
 9 **inflation?**

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 11 A. a) Newfoundland Power considers it appropriate to include the 2023 actual costs in the
 12 calculation of the historical average as it reasonably reflects the annual capital work
 13 requirements for this capital program.

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 15 The cost of the *Reconstruction* program was \$7.6 million in 2023 compared to the
 16 budget of \$6.7 million.¹ On an inflation-adjusted basis, the annual costs for this
 17 program has ranged from \$6.8 million to \$7.6 million over the most recent five-year
 18 period, excluding 2023. The 2023 actual results of \$7.6 million are within this range.

19
 20 b) (i) Forecast GDP inflation for 2025 is 1.6%, or 5.2% lower than the 6.8% increase
 21 over 2024 forecast.²

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 23 Newfoundland Power calculates its inflationary increases using the Company's
 24 internal weighted-labour inflation rate for its labour costs and the GDP Deflator
 25 for Canada for its non-labour costs. It applies that increase to the five-year
 26 average of adjusted costs.

27
 28 The Company considers its internal labour inflation rate to be the most
 29 appropriate measure of inflationary increases for its labour costs. Newfoundland
 30 Power applies this methodology in both its annual capital budgets and its general
 31 rate applications. It is a longstanding practice that provides for more accurate
 32 budget estimates for both capital and operating.

33
 34 (ii) See part b) (i).

¹ See Newfoundland Power's *2025 Capital Budget Application, 2023 Capital Expenditure Report*, page 7. Reconstruction program costs can vary year over year depending on the nature of the work encountered. Capital work requirements are identified through regular inspections and during site visits to address operational issues, including power interruptions and customer trouble calls. Specific to 2023, major events late in the year resulted in additional work requirements.

² Based on the GDP forecast in the Conference Board of Canada's data release in February 2024.