

- 1 **Q. (Reference CA-NP-152)**
 2 **Please clarify the derivation of the 2025 budget for the Reconstruction**
 3 **program by addressing the following questions.**
 4 **a) How is the \$7,200,000 inflation-adjusted five-year average expenditure**
 5 **decomposed into "Labour" and "Non-Labour" components as given in**
 6 **Table 1?**
 7 **b) Please assess the accuracy of the following statement. "*The 2025 budget***
 8 ***of \$7,425,000 is derived by increasing the Labour and Non-Labour***
 9 ***Average Adjusted Cost, as given in Table 1, by the respective inflation***
 10 ***rates of 4.45% and 1.63%, and then summing the two results."***
 11 **c) How is the \$7,425,000 budget for 2025 decomposed into Material, Labour-**
 12 **Internal, Labour-Contract, Engineering, and Other, as given in Application,**
 13 **Schedule B, page 21, Table 2?**
 14 **d) Have the relative magnitudes of the components of Reconstruction**
 15 **program remained the same over the past five years? In response, please**
 16 **provide a table with the same cost categories as Table 2 (Schedule B, page**
 17 **21) for the years, 2020 to 2024F.**
 18 **e) Are the tasks of internal labour and contract labour in the Reconstruction**
 19 **distinct from one another? Please explain the role of each type of labour**
 20 **and the extent to which one can be substituted for the other.**
 21 **f) If contract costs for this program were to be higher than expected, please**
 22 **explain how NP would proceed and how it has addressed this situation if it**
 23 **has occurred in the past.**
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- 25 **A.** a) Over the last five-year period, labour costs have represented an average of 53% and
 26 non-labour costs have represented an average of 47% of the total costs in each year
 27 for the *Reconstruction* program. To breakdown the \$7.2 million inflation-adjusted
 28 five-year average expenditure into its components, Newfoundland Power applied
 29 those percentages to determine the labour amount of \$3.8 million and the non-
 30 labour amount of \$3.4 million.¹
 31
- 32 b) This statement is accurate.
 33
- 34 c) Newfoundland Power allocated the proposed 2025 capital budget of \$7.4 million into
 35 the five cost categories using the average contribution of each category over the
 36 previous two years.²

¹ \$7.2 million x 53% = \$3.8 million for labour costs. \$7.2 million x 47% = \$3.4 million for non-labour costs.

² For example, Labour – Internal costs were 42.2% and 40.8% of the total costs in 2023 and 2024 forecast, respectively, resulting in a two-year average of 41.5% ((42.2% + 40.8%) / 2 = 41.5%). The Company allocated \$3.1 million of the total 2025 capital budget to Labour – Internal (41.5% x \$7.4 million = \$3.1 million).

- 1 d) The components of the *Reconstruction* program have been reasonably consistent
 2 over the past five years. Table 1 provides the proportional allocation of the
 3 components from 2020 to 2024 forecast.

Table 1: Reconstruction Program 2020 to 2024F (%)					
Cost Category	2020	2021	2022	2023	2024F
Material	23	22	21	24	23
Labour – Internal	45	46	45	42	41
Labour – Contract	20	20	22	21	21
Engineering	8	9	7	10	12
Other	4	3	5	3	3
Total	100	100	100	100	100

- 4 e) The type of labour required under the *Reconstruction* program is determined by the
 5 nature of the capital work encountered. The Company utilizes internal labour
 6 resources to complete repairs related to line work, such as replacement of damaged
 7 conductor, transformers, insulators and brackets. The Company utilizes contract
 8 labour resources to complete repairs related to pole work such as pole removals and
 9 installations.
- 10
 11 f) Newfoundland Power's contract procurement uses a tender process to ensure the
 12 least cost options for qualified contractors are utilized. In addition, internal contract
 13 leads monitor expenditures related to the *Reconstruction* program. The Company
 14 has previously addressed higher than expected contractor costs by evaluating the
 15 structure of the request for proposal and tender, awarding of partial contracts, and
 16 negotiating with contractors to manage costs.