

1 **General**

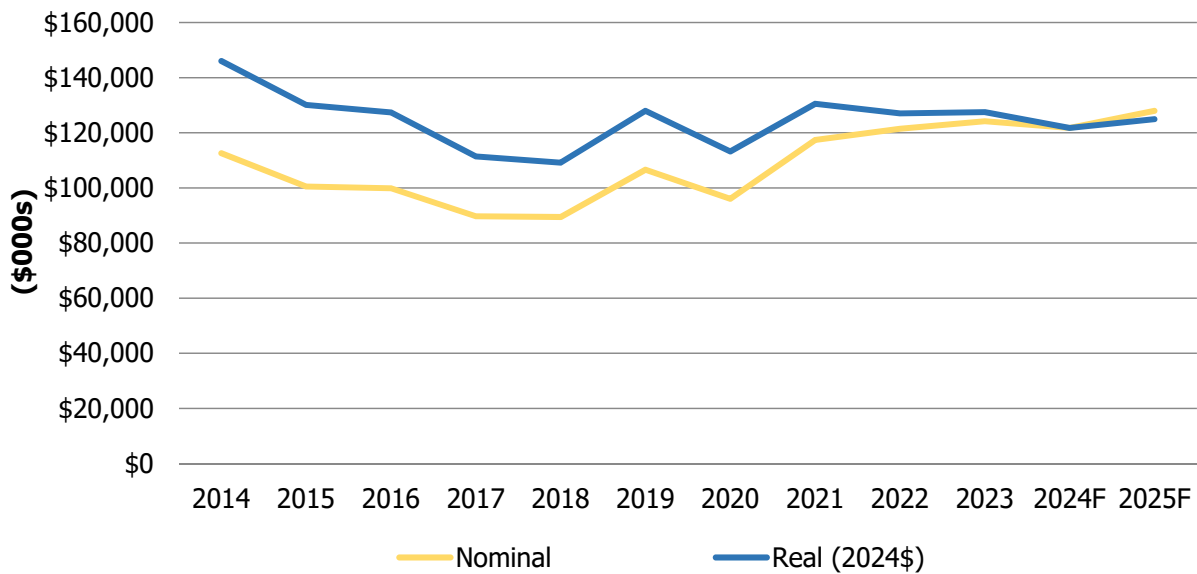
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3 **Q. Newfoundland Power has a number of capital programs in its capital budget. Given the current circumstances of regular increases in capital expenditures, what would be the impacts (both financial and operational) of reducing the budget for capital programs (i.e. not specific capital projects) in the range of 3% to 5%?**

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9 **A. Capital Expenditures Historically**

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11 Newfoundland Power’s annual capital expenditures reflect the capital additions, replacements and refurbishments necessary each year to provide safe and reliable service to customers at the lowest possible cost.

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15 Figure 1 provides Newfoundland Power’s actual and inflation-adjusted capital expenditures from 2014 to 2023, as well as forecast 2024 and proposed 2025 expenditures.
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Figure 1
Newfoundland Power Capital Expenditures
(2014-2025F)



18 As shown in Figure 1, on an inflation-adjusted basis, Newfoundland Power’s annual capital expenditures have remained relatively stable over the last decade.¹ This demonstrates that Newfoundland Power’s annual *capital work requirements*, including

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¹ On an inflation-adjusted basis, Newfoundland Power’s annual expenditures have ranged from approximately \$109 million in 2018 to \$146 million in 2014. The 2025 Capital Budget of approximately \$127.9 million is within this range.

1 those proposed in the 2025 Capital Budget, have remained relatively stable over this
 2 period, while increases in actual expenditures over this period have been largely
 3 attributable to inflationary increases in labour and material costs.²
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5 **Impacts of a Reduction to Capital Programs**

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 7 Capital programs include capital investments related to high-volume, repetitive work that
 8 is required on an ongoing basis for Newfoundland Power to meet its obligations under
 9 the *Public Utilities Act* and the *Electrical Power Control Act, 1994*.³ In particular, capital
 10 programs include:

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 12 (i) Capital work required to connect new customers to the electrical system,
 13 such as the installation of services and meters;
 14 (ii) Corrective and preventative maintenance programs necessary to maintain the
 15 electrical system, including the replacement of equipment that has failed or
 16 deteriorated; and
 17 (iii) Capital expenditures necessary to replace or add specific materials used in
 18 providing service to customers, such as personal computers, tools and
 19 equipment.
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21 Annual program budgets are based on historical expenditures, forecast inflationary
 22 increases and the forecast changes in customer service connections.⁴ Thus, the 2025
 23 capital budget reasonably reflects the annual level of capital expenditures required for
 24 Newfoundland Power to continue providing services and facilities that are reasonably
 25 safe, adequate and reliable.
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27 Accordingly, an arbitrary reduction in the capital budget associated with capital
 28 programs would inhibit the Company's operational ability to meet its statutory
 29 obligations. From a financial perspective, a reduction in the budget for capital programs
 30 in the range of 3% to 5% would reduce the 2025 capital budget by \$2 million and
 31 \$3 million, respectively. However, this reduction would likely result in increased *actual*
 32 expenditures in certain 2025 capital programs and operating functions.⁵

² For example, since 2020 the cost of a substation power transformer has nearly doubled, the average cost of wood poles used for distribution and transmission lines has increased by 20%, the average cost of pole-mounted distribution transformers has increased by nearly 60%, and the average cost of commonly used overhead conductors has increased by 30-50%.

³ For a discussion on the Company's statutory obligations, see Newfoundland Power's *2025 Capital Budget Application, 2025 Capital Budget Overview, Section 2.1 Regulatory Framework*.

⁴ The Company uses its internal weighted labour inflation rates to inflation-adjust its labour costs and the GDP Deflator for Canada provided by the Conference Board of Canada for its non-labour costs. The Company also uses projections provided by the Conference Board of Canada to determine its forecast new customer service connections.

⁵ For example, a reduction in planned preventative maintenance work completed under the 2025 *Rebuild Distribution Lines* program would likely result in additional unplanned equipment failures and more costly repairs to be completed under the 2025 *Reconstruction* program in order to restore service to customers. The increased equipment failures would also likely increase the number of customer outage calls to the Company's customer contact center, increasing operating costs in that function.

- 1 For further discussion on the Company's capital programs, see Newfoundland Power's
- 2 *2025 Capital Budget Application, 2025 Capital Budget Overview, Section 2.2.2 Capital*
- 3 *Program Planning.*
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- 5 For the justification for the capital expenditures associated with each capital program,
- 6 see Newfoundland Power's *2025 Capital Budget Application, Schedule B and Schedule C.*