

1 **Use of Historical Averaging for Budget Estimates Report**
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3 **Q. Throughout its General Rate Application hearing, Newfoundland Power spoke**
 4 **of higher inflation costs and increased capital cost pressures. How will**
 5 **Newfoundland Power reflect this in its use of historical averaging?**
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7 A. Newfoundland Power's historical averaging process incorporates annual changes in
 8 inflation in two ways:
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- 10 • Annual expenditures over the most recent five-year period are restated in
 11 current-year dollars as adjusted costs.¹ This allows annual inflation over the
 12 historical period to be reflected in the budget year, including the larger
 13 inflationary cost pressures experienced in 2021 and 2022.²
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- 15 • Forecast annual inflation for the budget year is applied to the five-year average
 16 to determine the capital program estimate for the budget year. This allows
 17 annual inflation over the forecast period to be reasonably reflected in the
 18 budget year.
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20 In addition, the Company considers the impact of outliers and trends in its capital
 21 budget estimating process for its capital programs. For the 2025 capital budget, there
 22 were four programs that required adjustments to the current historical averaging
 23 process. These were *New Transformers*, *Replacement Transformers*, *New Meters* and
 24 *Replacement Meters*.
 25

26 For *New Transformers* and *Replacement Transformers*, in addition to inflationary
 27 increases, an adjustment was required to incorporate a forecast 11% increase in
 28 materials cost and increases required to meet minimum inventory levels. For additional
 29 information regarding these adjustments, see the response to Request for Information
 30 PUB-NP-008.
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32 For *New Meters* and *Replacement Meters*, in addition to inflationary increases, an
 33 adjustment was required to incorporate unit cost increases in excess of inflation. To
 34 address the additional cost pressures, the Company determined the 2025 budget year
 35 using a three-year average instead of the typical five-year average.

¹ Newfoundland Power uses its weighted internal labour rate to inflation-adjust its labour costs and the GDP Deflator for Canada to inflation-adjust its non-labour costs.

² Actual inflationary increases for GDP were 7.7% in 2021 and 2022. Based on the GDP Deflator for Canada in the Conference Board of Canada's data release in February 2024.