

Use of Historical Averaging for Budget Estimates Report

Q. Pages 2-3, Table 1. Please confirm that the proposed 2025 budget for the programs were calculated based on historical annual expenditures over the most recent 5-year period expressed in current-year dollars inflated by the GDP Deflator for Canada for non-labour costs and the Company's internal labour inflation rate for labour costs. If this cannot be confirmed, please explain each departure from this methodology.

A. Newfoundland Power utilizes two historical average methodologies to calculate the annual budgets for its capital programs. One methodology is used for programs related to new customer connections and one methodology is used for programs with estimates not driven by forecast customer growth.

Programs Related to New Customer Connections

Programs related to new customer connections include *Extensions, New Meters,* and *New Services.* For these programs, an average cost per connection is calculated based on historical data.

Historical annual expenditures over the most recent five-year period are inflation-adjusted in current-year dollars.¹ These adjusted costs are divided by the number of new customers in each year to determine the average cost per connection in current-year dollars. The average of these adjusted costs is used as the base year. The base year is adjusted for the inflationary increases forecast for the budget year using the Company's internal labour rate for labour costs and the GDP Deflator for Canada for non-labour. This total is multiplied by the forecast number of new customers for the budget year to determine the proposed capital program budget.²

In the *2025 Capital Budget Application,* there was a departure from this methodology in calculating the proposed 2025 budget for the *New Meters* program. Unit cost increases have exceeded inflation since 2020. The Company utilized a three-year average instead of a five-year average for this program to calculate a reasonable estimate of forecast costs for 2025.

Programs Not Related to New Customer Connections

For programs that are not related to new customer connections, the calculation is similar; however, it removes the calculation of unit costs and forecast customer connections.

¹ Newfoundland Power uses its internal weighted-labour inflation rate to inflation-adjust its historical internal labour costs. The Company uses the forecast GDP Deflator provided by the Conference Board of Canada to inflation-adjust its historical non-labour costs.

² The Company uses projections provided by the Conference Board of Canada to determine its forecast new customer service connections.

1 Historical annual expenditures over the most recent five-year period are
2 inflation-adjusted in current-year dollars. The average of these adjusted costs is used as
3 the base year. The base year is adjusted for the inflationary increases forecast for the
4 budget year using the Company's internal labour rate for labour costs and the GDP
5 Deflator for Canada for non-labour to determine the proposed capital program budget.
6

7 In the *2025 Capital Budget Application*, there was a departure from this methodology in
8 calculating the proposed 2025 budget for *Replacement Meters, New Transformers and*
9 *Replacement Transformers*.³

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11 (i) *Replacement Meters*: Similar to *New Meters*, unit cost increases have exceeded
12 inflation since 2020. The Company utilized a three-year average instead of a
13 five-year average for this program to calculate a reasonable estimate of forecast
14 costs for 2025.
15
16 (ii) *New Transformers and Replacement Transformers*: Unit cost increases for
17 transformers have increased significantly since 2020. The Company utilized a
18 three-year average instead of a five-year average for these programs to calculate
19 a reasonable estimate of forecast costs for 2025. In addition, the Company
20 added a forecast 11% increase in materials costs based on unit prices provided
21 by the supplier and requirements to maintain minimum inventory levels.
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23 For additional information regarding the forecast 11% increase in materials cost,
24 see the response to Request for Information PUB-NP-008.

³ In scenarios where five years of data is not available for a capital program, the Company will calculate an average of the available years. The Company does not consider this a departure from the historical averaging methodology. For example, the *Replacement Street Lights* program was first proposed as a capital program in 2021. As such, the Company used a four-year average in determining the 2025 proposed capital budget for this program.