

Use of Historical Averaging for Budget Estimates Report

Q. Page 6. What is Newfoundland Power's method for identifying a cost as an outlier?

A. The Company identifies a cost as an outlier primarily through a review of: (i) the historical actual data used to calculate the Company's inflation-adjusted average cost; and (ii) significant known and measurable changes for proposed program work. A description of each review follows.

- (i) The Company uses historical averages to forecast capital program budgets related to customer load and connection growth, third-party requests and programs related to patterns of repair and replacement that are high volume. In general, the Company reviews the actual costs over the most recent five-year period to determine whether the cost incurred in any given year reasonably represents the work requirements within each program.

An increase or decrease in any given year is not necessarily considered an outlier. Actual expenditures for capital programs vary year over year depending on the nature of the work encountered.¹ If the Company considers a variance to be an outlier, it would make the appropriate adjustments to the historical year to exclude the outlier from the historical average calculations or add an additional amount deemed necessary to reasonably reflect average work requirements. For example, in each year from 2019 to 2022, the *Street Lighting, Relocate/Replace Distribution Lines for Third Parties, Tools and Equipment* and *Additions to Real Property* programs had adjustments made to address outliers.

- (ii) The Company considers significant known and measurable changes for anticipated program work when developing forecast estimates for the budget year. As examples:

- In the *2025 Capital Budget Application*, the Company has included an 11% increase in its *New Transformers* and *Replacement Transformers* capital program budgets for 2025. This increase was calculated using known unit prices provided by the supplier and a reasonable estimate of the transformer sizes and types required for 2025 based on a review of historical data.
- In the *2024 Capital Budget Application*, Newfoundland Power planned to procure energized conductor support tools. The scope and cost of the tools were such that they were excluded from the *Tools and Equipment* program budget and were proposed as a separate capital project.²

¹ Capital work requirements are identified through regular inspections and during site visits to address operational issues, including power interruptions and customer trouble calls. Capital work requirements will also vary depending on the number of new customer connections each year.

² See Newfoundland Power's *2024 Capital Budget Application, Schedule C*.