

1 **Use of Historical Averaging for Budget Estimates Report**  
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3 **Q. Page 6. Newfoundland Power states, "In the Company's 2025 Capital Budget**  
4 **Application, the budgets for the New Transformers and Replacement**  
5 **Transformers programs are based on a three-year historical average rather**  
6 **than the five-year average methodology due to higher than average material**  
7 **costs combined with increases to meet minimum inventory requirements."**  
8 **Please reconcile this statement with the statements on pages 33 and 37 of**  
9 **Schedule B – Projects and Programs Over \$750,000, which indicate that the**  
10 **estimate for the budget year for these programs is calculated by taking the**  
11 **average of the Adjusted Costs, adding a forecasted 11% increase in material**  
12 **costs and inflating it using the GDP Deflator for Canada.**  
13

14 A. The statement made on page 6 of the *Use of Historical Averages for Budget Estimating*  
15 report was not intended to be a comprehensive description of the full capital budget  
16 estimating methodology used to determine the 2025 capital program budget amounts  
17 for the *Replacement Transformers* and *New Transformers* programs. This statement  
18 occurs within a discussion on outliers and variances. It was included as an example of a  
19 variation from the Company's five-year historical average method used in the budget  
20 estimating process for its capital programs and the need to consider additional increases  
21 in material costs and inventory requirements. The statement also references the  
22 Company's *2025 Capital Budget Application*, Schedule B, page 33 for additional  
23 information on the change.<sup>1</sup>  
24

25 The statements made on page 33 and 37 of Schedule B for the *Replacement*  
26 *Transformers* and *New Transformers* programs, respectively, are intended to be a  
27 comprehensive description of the full capital budget estimating methodology used to  
28 determine the 2025 capital budgets for these programs. As noted in Schedule B for both  
29 programs, the 2025 capital budget was calculated based on the average of the historical  
30 annual expenditures over the most recent three-year period expressed in current-year  
31 dollars as Adjusted Costs. The full estimate for the 2025 budget year was calculated by  
32 adding: (i) a forecast 11% increase in materials cost; (ii) inflationary increases using the  
33 GDP Deflator for Canada; and (iii) increases required to meet minimum inventory levels.  
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35 For additional information regarding the forecast 11% increase in materials cost, see the  
36 response to Request for Information PUB-NP-008.

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<sup>1</sup> See Newfoundland Power's *2025 Capital Budget Application, Use of Historical Averages for Budget Estimating*, footnote 15.