

Use of Historical Averaging for Budget Estimates Report

Q. Pages 6-7. Should Newfoundland Power modify its methodology to ensure that forecast price increases are captured in the capital budgeting process? If so, what is the threshold at which an added forecast increase should be used rather than including outliers in a 5-year average calculation to ensure “the program budget estimates contemplate that capital expenditure requirements in any one year may vary by a larger amount than a more typical year”?

A. The passage quoted in this Request for Information relates to a discussion on the *Use of Historical Averages for Budget Estimating* report which describes circumstances that are not outliers, rather they are examples of variances in work requirements that can occur in any given year. As such, their inclusion in the five-year average is necessary to ensure the budget estimate reflects the average level of work that can occur in a given year.

For example, in the report, Newfoundland Power reviewed its historical cost methodology by comparing its results to scenarios using alternative averaging techniques.¹ Scenario three in this analysis was based on the Company’s current methodology, adjusted to remove the year with largest absolute variance from the average used to determine the budget estimate. This scenario provided for larger total variances than Newfoundland Power’s current methodology.² This analysis demonstrates that removing larger variances from the five-year average that are not clear outliers does not result in more accurate budget estimates.

The Company’s current approach also reasonably incorporates annual price changes in its capital programs, including incorporating additional adjustments where it is reasonable to do so. See the response to Request for Information PUB-NP-021 for a discussion on how Newfoundland Power’s current methodology incorporates annual price changes.

Overall, the Company’s current methodology reasonably captures future price impacts, is in line with accepted utility practice across Canada, and has provided reasonably accurate results. As such, modification to the methodology as contemplated in this Request for Information is not required.

¹ See Newfoundland Power’s *2025 Capital Budget Application, Use of Historical Averages for Budget Estimating* report, 4.1 *Historical Average Methodology Review*.

² Ibid., Table 3.