

1 **Q. (Reference Application Schedule B, pages 45, 46 and 47 of 98) For the Rebuild**
2 **Distribution Lines (Pooled) project, please explain the 33% increase in costs in 2018**
3 **over 2017 levels.**

4
5 A. The annual budget estimates for the *Rebuild Distribution Lines* project are calculated by
6 taking the average of the adjusted costs for the previous 5-year period and inflating it
7 using the GDP Deflator of Canada. Given annual budget estimates are based on
8 historical averages, variances from budget are simply the result of work requirements in a
9 given year being above or below average.¹ For example, in 2017 there were 673 work
10 orders completed under the *Rebuild Distribution Lines* project.² In 2018, there were
11 1,090 work orders, or 62% more, completed under the *Rebuild Distribution Lines* project.

12
13 The variance from budget for the 2018 *Rebuild Distribution Lines* project expenditure is
14 explained in Newfoundland Power's 2018 Capital Expenditure Report, 1st Revision, filed
15 with the Board on March 11, 2019 and states the following:

16
17 *"The expenditure on the Rebuild Distribution Lines project was \$585,000 more than*
18 *budget. This Distribution project involves the replacement of deteriorated*
19 *distribution structures identified through the Company's ongoing preventative*
20 *maintenance program. The expenditure is budgeted based on average historical*
21 *expenditures over the previous 5 years. Actual 2018 Rebuild Distribution Lines*
22 *expenditures were higher than budget due to the identification of work requirements*
23 *that exceeded the historical average."*

¹ Each year approximately 43 different distribution lines are inspected. While the inspection standard remains consistent from year to year, the 43 feeders are different. These differences include the age of the individual feeders, the extent to which previous work was completed, the location of the distribution lines, exposure to adverse weather, environmental conditions, etc. These differences contribute to the number of deficiencies identified each year.

² Multiple deficiencies can be associated with each work order.