

1 **Q. (Reference Application, 2023 – 2027 Capital Plan, page 5) It is stated**  
 2 **"Inflationary pressures on materials have also increased following the COVID-**  
 3 **19 pandemic."**

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 5 **a) How has inflation impacted the costs included in NP's 2023 capital**  
 6 **budget application?**

7 **b) Does NP (or its sources) believe that inflation is a temporary short-term**  
 8 **phenomenon or that it will be around for the longer-term? Please**  
 9 **provide NP's forecast of inflation used in the Application.**

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 11 A. a) Newfoundland Power's annual capital budget application includes a combination  
 12 of recurring programs and specific projects. Inflation impacts the budget  
 13 amounts for programs and projects differently.

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 15 The Company's programs are capital investments composed of high volume,  
 16 repetitive, like-for-like capital replacements, enhancements, or additions where  
 17 budgets are renewed annually. The 2023 Capital Budget includes 18 programs  
 18 that are based on the most recent five-year period of expenditures, adjusted for  
 19 inflation.<sup>1</sup> The inflation adjustment incorporates the GDP Deflator for Canada for  
 20 non-labour costs and the Company's internal labour inflation rate for labour  
 21 costs.<sup>2</sup> The total 2023 capital budget amount related to the inflation  
 22 adjustments for these 18 programs is approximately \$4 million.

23  
 24 Projects are capital investments that are typically non-repetitive in nature and  
 25 include defined budgets. Project budgets are based on detailed engineering  
 26 estimates, including third party material and contract labour cost estimates.  
 27 These cost estimates are generally based on recent cost history or vendor  
 28 quotes. While material and contract labour costs may increase annually, projects  
 29 and project scopes vary from year to year. As a result, Newfoundland Power  
 30 cannot reasonably determine the impact that inflation associated with projects  
 31 has had on the total 2023 capital budget amount.

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 33 For a discussion on how inflationary pressures can impact the Company's capital  
 34 expenditures, see the response to Request for Information CA-NP-095.

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 36 b) Inflation impacts the Company's costs annually, which is expected to continue  
 37 over the long-term. In terms of increased inflationary pressure on materials  
 38 following the COVID-19 pandemic, Newfoundland Power is unsure how long this  
 39 will continue.

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<sup>1</sup> That is, the historical expenditures are expressed in current-year dollars (i.e. 2022) for the purposes of determining the 2023 budget year estimate. The inflation adjusted five-year average of expenditures is then multiplied by 2023 inflation rates to determine the 2023 capital budget amounts. As an example, see the *2023 Capital Budget Application, Schedule B, page 34, Extensions Program*. Program budgets approved by the Board over the past two decades have been based on historical expenditures adjusted for inflation.

<sup>2</sup> For further information, see the responses to Requests for Information PUB-NP-005 and CA-NP-071.

1                   The Company relies on inflation forecasts prepared by the Conference Board of  
2                   Canada.<sup>3</sup>  
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4                   For inflation rates used to determine 2023 capital budget amounts for inflation-  
5                   adjusted programs outlined in part a), see the response to Request for  
6                   Information PUB-NP-005.  
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8                   The GDP Deflator for Canada forecast used in developing the 2024 to 2027  
9                   capital plan figures, was 1.55%, 1.68%, 1.62% and 1.80%, respectively. The  
10                  Company's internal labour inflation rate used over the same period was based on  
11                  the 2023 forecast of 2.85%.

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<sup>3</sup> In Order No. P.U. 36 (1998-1999), the Board ordered the adoption of the GDP Deflator for Canada as an appropriate inflation index for forecasting Newfoundland Power's non-labour expenses.