

1 Q. **Reference: PUB-NLH-037**

2 With respect to the use of a three-year (2020-2022) historical average to determine cost  
3 estimates for some of Hydro’s projects in its 2024 CBA:

4 **a)** For the case of Distribution System In-Service Failures, Miscellaneous Upgrades, and Street  
5 Light program please provide the details of the calculation of its 2024 cost estimate. Include  
6 the values of the three years of expenditure, the calculation of their average, the  
7 percentage escalation and the nature of the escalation (e.g. CPI, GDP deflator, Bank of  
8 Canada target inflation rate, Hydro’s in-house estimate) as well as the published source of  
9 the escalation figure.

10 **b)** Please identify the other projects/programs for which Hydro uses its three-year average  
11 method to determine project/program cost estimates, and indicate whether the calculation  
12 and the escalation rate are the same in those cases as with the Distribution System In-  
13 Service Failures, Miscellaneous Upgrades, and Street Light program.

14  
15

16 A. **a)** The estimate for the Distribution System In-Service Failures, Miscellaneous Upgrades, and  
17 Street Lights program was derived as a three-year average for the years 2020–2022. The  
18 values were obtained from the respective capital expenditures and carryover reports, the  
19 values of which are provided in Table 1.

**Table 1: Historical Actual Expenditures – Distribution System In-Service Failures,  
Miscellaneous Upgrades, and Street Lights  
(\$000)**

<b>Year<sup>1</sup></b>	<b>Expenditure</b>
2020	3,288.6
2021	5,032.6
2022	4,714.6

---

<sup>1</sup> In 2020 and 2021, this program was titled “Upgrade Distribution Systems.”

1 The total three-year expenditure is equal to \$13,035.80, with the average equating to  
2 \$4,345.27,<sup>2</sup> which is the estimate filed for approval in the 2024 Capital Budget Application  
3 (“CBA”). Escalation was not applied in calculating the Distribution System In-Service Failures,  
4 Miscellaneous Upgrades, and Street Light program 2024 cost estimate.

5 As part of Newfoundland and Labrador Hydro’s (“Hydro”) capital budgeting process,  
6 escalation is applied on a case-by-case basis using either the associated corporate index, or  
7 in some cases, escalation is not applied at all. Hydro has since reviewed this approach, and is  
8 planning to have future proposals escalate the historical expenditures to the year of  
9 projected spend and determine the averages from these values. For the 2025 CBA this  
10 would mean escalating 2021–2023 actual expenditures to 2025 dollars and calculating the  
11 three-year average of these values. It is proposed this will generate a more accurate set of  
12 values from which to derive an estimate.

13 **b)** Hydro uses a three-year average to estimate all established<sup>3</sup> In-Service Failure program  
14 estimates, and Provide Service Extensions. This practice was evaluated and updated from a  
15 five-year average in the 2023 CBA due to inflation trends. Hydro believes that this gives a  
16 more accurate reflection of actual expenditures. Hydro’s escalation approach on these  
17 projects/programs is described above.

---

<sup>2</sup> \$13,035.80/3 years = \$4,345.27.

<sup>3</sup> Established In-Service Failure programs include Hydraulic Generation, Thermal, Terminal Station, and Distribution System In-Service Failures, Miscellaneous Upgrades, and Street Lights, where there is three years of data available. Newer In-Service Failure program estimates are based on the historical expenditures and technical experience within these areas.