Q. (Excerpts from 2020 and 2021 Capital Expenditure Report: Appendix A Notes)

2020 [sic] Capital Expenditure Report
Distribution
2. Extensions:

Budget: $11,318,000 Forecast: $10,199,000 Variance: ($1,119,000)

The forecast expenditure for Extensions is expected to be approximately 10% below the budgeted amount. The reduction reflects a 10% decrease in anticipated new customer connections. In 2020, the number of new customer connections is expected to drop by approximately 10% from 2,639 to 2,378.

Distribution
2. Services:

Budget: $3,272,000 Forecast: $2,958,000 Variance: ($314,000)

The forecast expenditure for Services is expected to be approximately 10% below the budgeted amount. The reduction reflects a 10% decrease in anticipated new customer connections. In 2020, the number of new customer connections is expected to drop by approximately 10% from 2,639 to 2,378.

AND

2021 Capital Expenditure Report
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Distribution
1. Extensions:

Budget: $10,891,000 Forecast: $9,556,000 Variance: ($1,335,000)

The forecast expenditure for Extensions is expected to be approximately 12% below the budgeted amount. The reduction reflects a 12% decrease in anticipated new customer connections. In 2021, the forecast number of new customer connections is expected to drop from 2,379 to 2,096.

2. Services:

Budget: $3,110,000 Forecast: $2,799,000 Variance: ($311,000)
The forecast expenditure for Services is expected to be approximately 10% below the budgeted amount. The reduction reflects an anticipated drop in new customer connections from 2,379 to 2,096.

a) Does the 2022 Capital Budget Application take into account the implications of

the 10% decrease in 2019 and 12% decrease in 2020 in anticipated new customer connections? If so, what did Newfoundland Power specifically do in response to decreased customer connections?

b) What are the longer-term ramifications if a 10% to 12% decrease continues annually?

c) Is Newfoundland Power concerned about the utility death spiral?

A. a) Yes, capital expenditures associated with Newfoundland Power's 2022 *Extensions* and *Services* projects account for the lower customer connections experienced in 2019 and 2020.

Estimates for the *Extensions* and *Services* projects in 2022 are calculated on the basis of 5-year historical cost and new customer data, which would include 2019 and 2020.[1] The historical data is used to determine average extension and services costs per customer. The average costs are then multiplied by the forecast number of new customers for the budget year to determine the *Extensions* and *Services* project estimates.

The forecast number of new customers is derived from economic projections provided by independent agencies.

b) Continued decreases in Newfoundland Power customer connections could result in lower capital expenditures associated with the *Extensions* and *Services* capital budget projects.[2] Continued decreases in customer growth could also lower the Company's energy sales.

c) Newfoundland Power is not currently concerned about the utility death spiral.[3]

[1] See the *2022 Capital Budget Application, Schedule B*, pages 24 to 25 for further detail regarding Newfoundland Power's costing methodology for the *Extensions* project. See *Schedule B*, pages 29 to 31 for further detail regarding Newfoundland Power's costing methodology for the *Services* project.

[2] For example, adjusted extension costs were $10.7 million in 2020 compared to $14.3 million in 2017. See the *2022 Capital Budget Application, Schedule B*, page 25, Table 2.

[3] Newfoundland Power considers the 'utility death spiral' to refer to a scenario in which declining utility energy sales lead to higher customer rates necessary to recover a utility's costs. Higher customer rates, in turn, lead to a further decline in energy sales which require further increases in customer rates.