

1 **Q. (Reference Application, 2023 Capital Budget Overview, page 8, Figure 4) In its**
 2 **July 25 introductory presentation on its 2023 CBA, NP also included Figure 4**
 3 **(as slide 9) and in the discussion indicated that its graph of its historical**
 4 **inflation-adjusted capital expenditures was based on adjusting the nominal**
 5 **expenditures by using a mix of the GDP deflator, applied to the non-labour**
 6 **portion of the expenditure, and its own index of labour costs, applied to the**
 7 **labour portion.**

8
 9 **a) Please confirm, with any appropriate clarification, that the preceding**
 10 **statement regarding inflation adjustment is correct.**

11 **b) When did NP start using its own labour cost index in its calculation of**
 12 **inflation-adjusted capital expenditures and what was the rationale for**
 13 **doing so?**

14 **c) Please provide a revised Figure 4 that also includes real capital**
 15 **expenditures based solely on the GDP deflator, using 2022 as the base**
 16 **year for comparability.**

17 **d) Please provide a table for the years 2002 to 2021 showing the annual**
 18 **inflation rates based on (i) NP's index used to adjust its capital**
 19 **expenditure for inflation and (ii) Statistics Canada's GDP deflator.**

20
 21 **A. a) It is confirmed.**

22
 23 **b) Newfoundland Power has historically used labour inflation to forecast labour**
 24 **costs and the GDP Deflator for Canada to forecast non-labour costs.¹ For**
 25 **example, in Order No. P.U. 36 (1998-1999), the Board ordered the adoption of**
 26 **the GDP Deflator for Canada as an appropriate inflation index for forecasting the**
 27 **Company's non-labour costs. At that time, Newfoundland Power was using**
 28 **internal labour rates to calculate labour inflation for the purposes of forecasting**
 29 **labour costs.²**

30
 31 With respect to the graph presented in the *2023 Capital Budget Overview*,
 32 page 8, Figure 4, the Company has been providing a similar graph since its *2013*
 33 *Capital Budget Application*. Inflation-adjusted figures have been determined
 34 using a weighted average of labour cost inflation and non-labour cost inflation
 35 since that time.

36
 37 Using labour cost inflation to adjust labour related costs is appropriate as it more
 38 accurately reflects the labour market conditions that affect the Company's labour
 39 costs. In the Company's view, using the GDP Deflator for Canada to forecast
 40 labour-related costs may not provide for reasonable forecast costs. Further,
 41 using only the GDP Deflator for Canada to inflation-adjust Newfoundland Power's

¹ This practice is consistent for both the annual capital budget applications and general rate applications. The Company's approach to determining inflation is routinely reviewed by the Board during general rate application processes. In Newfoundland Power's *2001 Capital Budget Application*, the Company specifically noted the use of internal rates for inflation adjusting labour costs.

² See the response to Request for Information PUB-NP-005 for additional information on Newfoundland Power's labour inflation rate.

Requests for Information

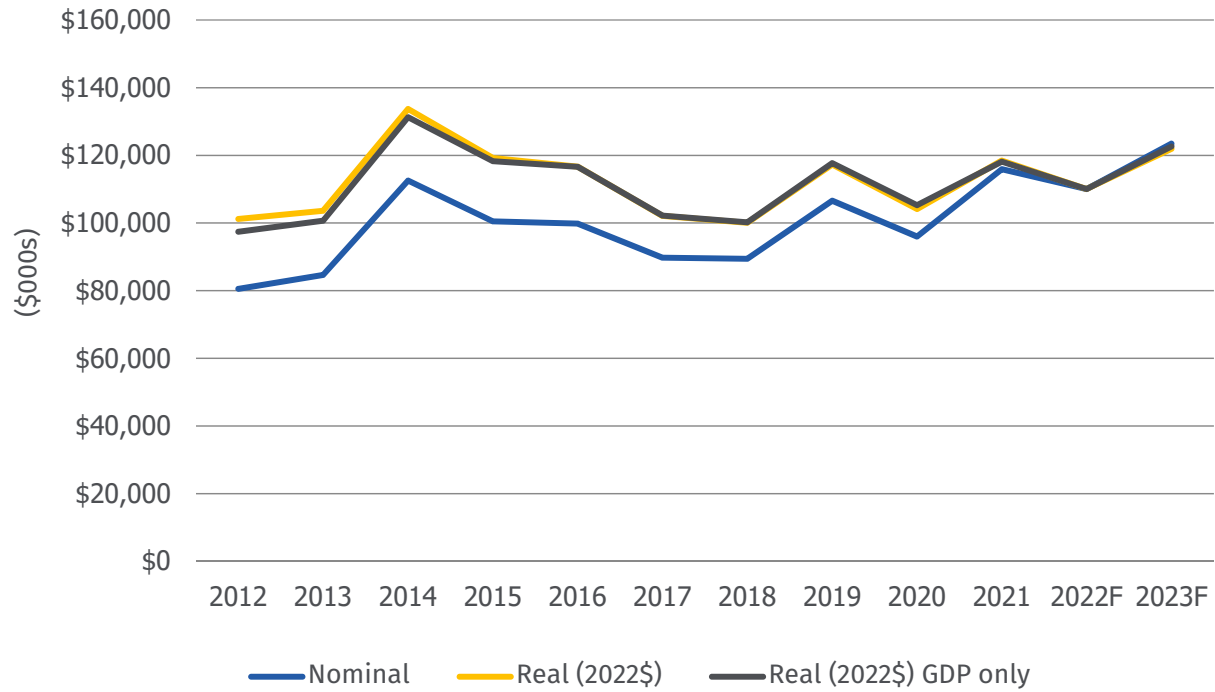
- 1 capital expenditures, which include labour costs, would provide for a less
2 accurate comparison of costs over time as labour and non-labour market
3 conditions can differ.
4
- 5 c) See Attachment A for the requested information.
6
7 d) See Attachment B for the requested information.



ATTACHMENT A:

Capital Expenditures: 2012-2023F

Figure 1
Capital Expenditures
(2012-2023F)



ATTACHMENT B:

Annual Inflation Rates: 2002 to 2021

Table 1 Inflation Rates 2002-2021 (%)		
Year	Weighted Average Index ¹	GDP Deflator Only
2002	2.4	1.2
2003	3.0	3.3
2004	3.2	3.3
2005	2.3	3.1
2006	3.6	2.6
2007	3.2	3.3
2008	2.9	4.0
2009	(0.2)	(2.3)
2010	3.3	2.8
2011	3.4	3.2
2012	1.6	1.2
2013	2.7	1.7
2014	3.0	1.9
2015	0.1	(0.9)
2016	1.5	0.8
2017	2.7	2.6
2018	1.7	1.6
2019	1.7	1.5
2020	1.5	0.7
2021	6.1	7.6

¹ Newfoundland Power determines inflation-adjusted calculations using its internal labour rates for labour costs and the GDP Deflator for Canada for its non-labour costs.