

1 **Q. (Reference Application, 2022 Capital Expenditure Status Report, page 1 of 13)**
 2 **How is it that budget and forecast are exactly the same for 10 of the 11**
 3 **categories in the table, particularly in light of the uncertainties brought on by**
 4 **Covid and the very high levels of inflation?**

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 6 A. The *2022 Capital Expenditure Status Report* (the "Report") is provided in accordance
 7 with Order No. P.U. 36 (2021). The Report requires, among other things, the variance
 8 between the projected total 2022 expenditures and the approved 2022 budget and an
 9 explanation of the variance.

10
 11 Variances of more than 10% of approved expenditure and \$100,000 or greater are
 12 explained in the Report.¹ If a project expenditure above this threshold is known and
 13 measurable at the time the Report is prepared, the annual forecast is adjusted and a
 14 variance explanation is provided. For example, the Company prepared its latest
 15 customer connection forecast in March 2022.² The new information provided by the
 16 forecast resulted in a forecasted 15% increase from the approved 2022 budget amount.
 17 Accordingly, the annual forecast in the report was adjusted and a variance explanation
 18 was provided.³

19
 20 The Report is prepared in the spring of each year. At that time, the construction season
 21 has not started in full and year-to-date capital expenditures primarily relate to design
 22 work which is internal labour intensive.⁴ As such, annual variances greater than 10%
 23 and \$100,000 for 2022 projects and programs are typically not known at that time.
 24 While certain inflationary cost pressures may be known at the time the Report is filed,
 25 the extent of the impact may not be certain, including any offsetting effects such as
 26 lower work level requirements. This primarily pertains to the Company's 18 annual
 27 capital programs, which are based on five-year historical costs and work requirements.
 28 For example, inflationary cost pressures associated with transformers are expected to
 29 increase costs in the *Replacements Transformers* program in 2022. However, annual
 30 program costs will ultimately be determined by the type and number of transformers
 31 replaced in 2022 in conjunction with the cost of the transformers.⁵

32
 33 During this year's construction season, Newfoundland Power has experienced supply
 34 chain issues as well as higher material costs. The cost drivers are similar to 2021, with
 35 higher material costs being driven by increased prices related to steel, copper, aluminum
 36 conductor and poles.⁶ In 2021, these inflationary pressures resulted in higher annual

¹ These variance criteria are as outlined in the *Capital Budget Application Guidelines, Policy No. 1900.6, October 2007*. These variance thresholds are consistent with the new Provisional Guidelines. See Section V.C of the new Provisional Guidelines.

² Based, in part, by housing start data provided by the Conference Board of Canada in February 2022.

³ Based on a 15% increase in customer connections. See the *2023 Capital Budget Application, 2022 Capital Expenditure Status Report*, Appendix A, page 2. The report also provides a variance explanation for the *Topsail Hydro Plant Refurbishment* multi-year project where the forecast expenditure is expected to be approximately 15% below the budgeted amount.

⁴ Materials and contractor labour would be more subject to inflationary pressures than internal labour costs, which are more stable from year to year.

⁵ Transformers, which are either pole-mounted or padmount, are replaced upon failure or imminent risk of failure. Transformer replacements ranged from 585 to 704 over the last five years.

⁶ In 2022, higher fuel prices have also increased certain contractor pricing.

1 costs than budget by greater than 10% in certain areas, such as the *Substation*
2 *Refurbishment and Modernization* and *Distribution Reliability Initiative* projects and the
3 *Extensions* program. While inflationary pressures resulted in larger variances in these
4 areas, the Company's overall 2021 actual capital expenditures were within 3% of
5 budget.⁷
6

7 Similar to 2021, Newfoundland Power is managing supply chain issues and higher
8 material costs to limit its impact on overall 2022 annual capital expenditures. Consistent
9 with past practice, variances in actual expenditures from the approved budget amounts
10 will be reported to the Board in the Company's annual capital expenditure report to be
11 filed in February 2023.

⁷ See the *2021 Capital Expenditure Report*, page 1. Actual capital expenditures in 2021 were \$3.1 million, or 2.7%, higher than the 2021 capital budget of \$112.8 million.