Q. (Reference Application Schedule B, New Transformers, pages 46 and 48) It is stated "*The New Transformers program includes the cost of purchasing transformers to serve customer growth.*" Further, on page 48 it is stated "*The number of new transformers required to be installed varies annually based on customer growth and load density on sections of distribution feeders*."

a) Should a portion of the cost forecast be tied to the number of new customers, particularly in light of the reduction in growth of new customers in recent years?

b) Table 1 indicates that the forecast cost of this program for 2023 is $2.967 million. The budget request for 2024 is $3.264 million. (i) Please confirm that this represents a 10% increase for 2024. (ii) How does that increase compare to the Conference Board of Canada's forecast for inflation (GDP deflator) for 2024? (iii) Does NP have any specific engineering or cost data to support a 10% increase in spending on the New Transformers program?

A. a) There is no direct relationship between the number of new customers and the number of new transformers installed. There is a lead-lag relationship between new distribution infrastructure being installed and new customers being connected. Customers being connected in the current year could be connected utilizing infrastructure installed in prior years and infrastructure installed in the current year may not see all customer connections until future years. Attributing costs incurred under this project to the number of customers forecast to be connected would not necessarily improve the quality of the budget estimate.

b) (i) It is confirmed.

(ii) The Conference Board of Canada is forecasting an inflationary increase of 2.05% for 2024.

(iii) The budget for the *New Transformers* program is based on a historical average. Historical annual expenditures under this program over the most recent five-year period are expressed in current-year dollars ("Adjusted Costs"). The estimate for the budget year is calculated by taking the average of the Adjusted Costs ($3,198,000) and inflating it using the GDP Deflator for Canada.

Table 1 shows annual expenditures for the *New Transformers* program from 2019 to 2024, the Adjusted Costs and the five-year historical average.

Table 1
New Transformers Program
Historical Expenditures
($000s)

Cost	2019	2020	2021	2022	2023F	Average	2024F
Total	2,677	2,645	2,976	3,434	2,967		3,264
Adjusted[1]	3,175	3,119	3,244	3,486	2,967	3,198	

[1] 2023 dollars.

The increase from the five-year average of $3,198,000 to $3,264,000 is 2.05%, which represents the GDP Deflator. Approximately 7.8% is attributable to the difference between the average of the Adjusted Costs ($3,198,000) and the 2023 forecast costs ($2,967,000).