

1 **Q. (Reference Application, Schedule B, page 25)**

- 2 **a) Why is the cost of the Rebuild Distribution Line program so high in 2023?**
 3 **Did NP consider removing it from the calculation of the historical average?**
 4 **b) The proposed cost for 2025 of \$5.115 million is 2.8% higher than the**
 5 **2024F cost of \$4.974 million. (i) How does that percentage increase**
 6 **compare to the inflation forecast based on the GDP deflator? (ii) Does NP**
 7 **have any information that justifies cost increase that is more than**
 8 **inflation?**
 9

- 10 A. a) Newfoundland Power considers it appropriate to include the 2023 actual costs in the
 11 calculation of the historical average as it reasonably reflects the annual capital work
 12 requirements for this capital program.
 13

14 The cost of the *Rebuild Distribution Lines* program was \$5.1 million in 2023
 15 compared to the budget of \$4.9 million.¹ On an inflation-adjusted basis, the annual
 16 costs for this program has ranged from \$4.3 million to \$5.4 million over the most
 17 recent five-year period. The 2023 actual results of \$5.1 million are within this range.
 18

- 19 b) (i) Forecast GDP inflation for 2025 is 1.6%, or 1.2% lower than the 2.8% increase
 20 over 2024 forecast.²
 21

22 Newfoundland Power calculates its inflationary increases using the Company's
 23 internal weighted-labour inflation rate for its labour costs and the GDP Deflator
 24 for Canada for its non-labour costs. It applies that increase to the five-year
 25 average of adjusted costs.
 26

27 The Company considers its internal labour inflation rate to be the most
 28 appropriate measure of inflationary increases for its labour costs. Newfoundland
 29 Power applies this methodology in both its annual capital budgets and its general
 30 rate applications. It is a long-standing practice that provides for more accurate
 31 budget estimates for both capital and operating.
 32

- 33 (ii) See part b) (i).

¹ See Newfoundland Power's *2025 Capital Budget Application, 2023 Capital Budget Expenditure Report*, page 7.

² Based on the GDP forecast in the Conference Board of Canada's data release in February 2024.