

- 1 **Q. (Reference Application, Schedule B, page 88) With respect to the**
 2 **transmission line maintenance program it is stated “*The Transmission Line***
 3 ***Maintenance program involves the replacement of transmission line***
 4 ***infrastructure that has failed or is at risk of failure.”***
 5 **a) Given that it is a maintenance program, why is it included in the capital**
 6 **budget?”**
 7 **b) Why was the cost in 2023 so high? Should this figure be removed from the**
 8 **calculation of the average cost? Did NP consider doing so?**
 9 **c) The proposed cost for 2025 of \$2,884 million is 8.8% higher than the**
 10 **2024F cost of \$2.651 million. (i) How does that percentage increase**
 11 **compare to the inflation forecast based on the GDP deflator? (ii) Does NP**
 12 **have any information that justifies such a large increase in cost relative to**
 13 **inflation**
- 14
- 15 **A. a)** The *Transmission Line Maintenance* program involves *replacing* transmission line
 16 poles, crossarms, conductors, insulators and hardware on approximately 2,100
 17 kilometers of Newfoundland Power’s transmission lines. Each of these components is
 18 considered a unit of property for a transmission line. As these components will
 19 provide benefits to customers for a period greater than one year, they are
 20 considered to be capital assets in accordance with accounting principles generally
 21 accepted in the United States of America.
- 22
- 23 **b)** It is appropriate to include the 2023 actual costs in the calculation of the historical
 24 average as it reasonably reflects the annual capital work requirements for this capital
 25 program.
- 26
- 27 The cost of the *Transmission Line Maintenance* program was \$3.4 million in 2023
 28 compared to the budget of \$2.6 million.¹ This variance was primarily due to higher
 29 material and contractor labour costs. In addition, unplanned corrective maintenance
 30 activities to address transmission asset failures occurred late in the year.
- 31
- 32 Actual expenditures for capital programs vary year over year depending on the
 33 nature of the work encountered.² Unplanned corrective maintenance can also be
 34 required in any given year to address transmission line equipment that has failed. As
 35 such, it is appropriate to include 2023 actuals in the historical average calculation.
- 36
- 37 **c) (i)** Forecast GDP inflation for 2025 is 1.6%, or 7.2% lower than the 8.8% increase
 38 over 2024 forecast.³
- 39
- 40 Newfoundland Power calculates its inflationary increases using the Company’s
 41 internal weighted-labour inflation rate for its labour costs and the GDP Deflator

¹ See Newfoundland Power’s *2025 Capital Budget Application, 2023 Capital Expenditure Report, Appendix A*, page 4.

² The *Transmission Line Maintenance* program includes both corrective and preventative maintenance. Planned capital work requirements are typically identified through annual inspection and operating experience.

³ Based on the GDP forecast in the Conference Board of Canada’s data release in February 2024.

1 for Canada for its non-labour costs. It applies that increase to the five-year
2 average of adjusted costs.⁴ The proposed cost for 2025 of \$2.9 million is 2.2%
3 higher than the five-year average of adjusted costs and reflects the Company's
4 forecast inflation in 2025.⁵

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6 Overall, the 2025 *Transmission Line Maintenance* program budget is determined
7 consistent with the Company's longstanding historical average approach,
8 providing for a reasonable 2025 capital budget amount.

9
10 (ii) See part c), (i).

⁴ The Company considers its internal labour inflation rate to be the most appropriate measure of inflationary increases for its labour costs. Newfoundland Power applies this methodology in both its annual capital budgets and its general rate applications. It is a longstanding practice that provides for more accurate budget estimates for both capital and operating.

⁵ $((\$2,884,000 - \$2,821,000)) / \$2,821,000 = 2.2\%$