

1 **Schedule B 2025 Capital Projects and Programs Over \$750,000**
 2

3 **Q. Page 33, Replacement Transformers and page 37, New Transformers. It is**
 4 **stated that the estimate for the budget year is calculated by taking the**
 5 **average of the Adjusted Costs, adding a forecasted 11% increase in material**
 6 **costs and inflating it using the GDP Deflator for Canada. Please provide**
 7 **support for the forecasted 11% increase in material costs.**
 8

9 A. The 11% increase in material costs is based on the forecast average cost of a
 10 distribution transformer in 2025. The average cost of a distribution transformer is
 11 forecast to be \$6,200 in 2025 compared to \$5,600 in 2024.¹
 12

13 The cost per unit of a distribution transformer varies depending on the electrical rating
 14 and mounting type. The forecast average cost was derived using unit prices provided by
 15 the supplier and a reasonable estimate of the transformer sizes and types required for
 16 2025 based on a review of historical data.²
 17

18 Newfoundland Power has a long-standing practice of using inflation-adjusted historical
 19 expenditures for estimating its transformer requirements. In general, estimating the
 20 forecast capital budget using the historical average method mitigates variances based
 21 on inventory requirements. However, in periods with significant cost increases above
 22 normal inflation levels, further analysis is required to develop a reasonable estimate of
 23 forecast costs for the budget year.
 24

25 Since 2020, Newfoundland Power has observed material cost increases across all
 26 product types required in the *New Transformers* and *Replacement Transformers* capital
 27 programs. The average cost of a distribution transformer in 2020 was approximately
 28 \$4,100 compared to the 2024 forecast of approximately \$5,600.³ This represents a 37%
 29 increase in the average cost of transformers over a four-year period preceding the
 30 budget year.
 31

32 Newfoundland Power has also increased its 2024 forecast for the *New Transformers* and
 33 *Replacement Transformers* capital programs to address the material cost increases.⁴

1 ¹ $(\$6,200 - \$5,600) = \$600 / \$5,600 = 11\%$.

2 ² The sizes and types of transformers can vary each year depending on the number of units required to supply new customers, replace rusty transformers and to provide storm response. On average, approximately 1,500 distribution transformers were purchased each year from 2019 to 2023.

3 ³ $(\$5,600 - \$4,100) = \$1,500 / \$4,100 = 37\%$.

4 ⁴ See Newfoundland Power's *2025 Capital Budget Application, 2024 Capital Expenditure Status Report, Appendix A: Variance Notes*, page A-1.