Section 2: Customer Operations/Operating Costs

Q. Reference: "2025/2026 General Rate Application," Newfoundland Power Inc., December 12, 2023, vol. 1, Evidence, sec. 2.4.1, p. 2-29, Table 2-3.

a) Please explain the process used to determine the estimates for budgets and test years.

b) Please confirm the budgeting process used to determine that the estimates for the 2025 and 2026 Test Years were zero-based. If not, please describe how the estimates were determined.

c) How many months of Actuals and Forecast are included in 2023 Forecast?

A. a) Newfoundland Power prepares estimates for gross operating costs using historical data and two different inflation indexes. For labour costs, the Company uses its internal weighted labour rate.[1] For non-labour costs, the Company uses the GDP deflator as the inflation index to forecast most non-labour operating costs.[2]

In accordance with established regulatory practice, the Company also reflects known and measurable changes in its forecast gross operating costs.

b) Newfoundland Power does not use zero-based budgeting. See part a) for a description of the budgeting process used to determine the estimates for the 2025 and 2026 test years.

c) For the 2023 forecast, approximately nine months of actuals were included.

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[1] See the *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2.4.1 Operating Costs*, footnote 57.

[2] Newfoundland Power does not use the Consumer Price Index. In Order No P.U. 36 (1998-99), the Board ordered the adoption of the GDP deflator for Canada as an appropriate inflation index to forecast non-labour operating expenses.