Q. **Reference: Volume 1, page 2.29**

Hydro states (lines 3 to 4 and footnote 61) *"Inflation since the 2019 Test Year has been substantial, with costs escalating by approximately 28% when compounded year over year...Weighted inflation rate compounded year over year from 2019 Test Year using GDP deflator (32%) and labour inflation (25%).*

a) Provide the data by year from the 2019 Test Year to 2027 Test Year to support the compound GDP deflator of 32% and compound labour inflation of 25%.

b) Explain the differences between a GDP deflator and consumer price index (CPI) and which inflation metric Hydro believes is the most appropriate to assess performance with respect to non-labour related costs.

c) Provide the Newfoundland and Labrador CPI by year including the 2019 actual to the 2025 actual and 2026 to 2027 forecast CPI (if available).

d) Provide the increase in Newfoundland & Labrador average weekly earnings by year including the 2019 actual to the 2025 actual and 2026 to 2027 forecasts (if available).

A. **a)** Please refer to Newfoundland and Labrador Hydro's ("Hydro") response to NP-NLH-035 of this proceeding.

b) Hydro utilizes the Gross Domestic Product ("GDP") deflator as the inflation factor for its non-labour costs, consistent with its 2017 General Rate Application and the Board of Commissioners of Public Utilities ("Board") Order No. P.U. 36(1998-1999), wherein the Board accepted the GDP deflator for Canada as an appropriate inflation index for forecasting non-labour operating expenses.

The Consumer Price Index ("CPI") measures changes in prices as experienced by Canadian consumers and is based on a fixed basket of goods and services purchased by households. The CPI basket includes categories such as food, shelter, transportation, health and personal care, recreation, and household goods and services. In contrast, the GDP deflator is a broad measure of economy-wide inflation that reflects changes in the prices of all domestically produced goods and services within the Canadian economy. Unlike CPI, it is not limited to consumer purchases and captures price changes across a wider range of economic activity, including many of the goods and services acquired by businesses and utilities.

Hydro believes the GDP deflator to be a more appropriate inflation index than CPI for non-labour costs[1] because Hydro's non-labour expenditures are primarily related to utility operations, maintenance activities, professional services, materials, contract labour, and other business inputs, rather than the consumer goods and services reflected in the CPI basket. As a result, the GDP deflator is a better indicator of the inflationary pressures affecting Hydro's non-labour operating costs and provides a more appropriate basis for evaluating cost performance over time.

c) Table 1 provides the CPI for Newfoundland and Labrador from 2019–2025. Forecast information for 2026 and 2027 is not available.

Table 1: Newfoundland and Labrador Annual CPI – All Items (%)[2]

Year	Annual CPI
2019	1.0
2020	0.2
2021	3.7
2022	6.4
2023	3.3
2024	1.8
2025	1.4

d) Statistic Canada industry information, including average weekly earnings by province, can be found on the Statistics Canada website.[3]

[1] In Newfoundland Power Inc.’s study on inflation factors in 1998, CPI was determined to be an inappropriate inflation index as it was not reflective of the types of materials consumed by an electric utility, which remains relevant today.
[2] Newfoundland and Labrador Statistics Agency, *Consumer Price Index by Major Component, Newfoundland and Labrador, 1979–2025,* Department of Finance, Government of Newfoundland and Labrador, https://www.stats.gov.nl.ca/Statistics/Topics/cpi/Excel/CPI_Components_NL_7925.xlsx.
[3] Statistics Canada, *Table 14-10-0203-01: Average weekly earnings by industry, monthly, unadjusted for seasonality*.