

Q. (Reference Schedule B, Reconstruction)

a) Table 1 (page 14) shows a sizeable step up in expenditures in 2023 and 2024 (\$7.6 million and \$8.6 million, respectively) compared to 2021 and 2022 (\$6.0 million and \$6.2 million, respectively). Please provide an explanation.

b) For each of the years 2021 to 2025F inclusive, please provide a table showing the decomposition of total expenditure in terms of cost categories: Material, Labour-Internal, Labour-Contract, Engineering and Other.

c) On page 14 it is stated "The average annual adjusted cost for the Reconstruction program was approximately \$7.4 million from 2021 to 2025" and on page 15 it is stated that "Annual expenditures are forecast to average approximately \$8.1 million over the next five years." What is the explanation for this sizeable increase in expenditure?

- A.** a) The increase in expenditures in 2023 and 2024 reflect: (i) inflationary increases;¹ (ii) higher material costs;² (iii) additional work required as a result of major events;³ and, (iv) an increased replacement of rusty transformers.⁴

Reconstruction is a corrective maintenance program that involves the replacement of deteriorated or damaged distribution structures and electrical equipment. The program addresses high-priority deficiencies that are identified during inspections or recognized during operational problems, including customer outages and trouble calls. The nature of this work can vary from year to year based on inspection results, trouble calls and significant events.

The 2026 budget for the *Reconstruction* program is based on an inflation-adjusted historical average. After adjusting for inflation and additional costs related to major events, the annual costs for this program ranged from \$6.7 million to \$8.3 million from 2021 to 2025 forecast. The proposed 2026 capital budget of \$7.7 million is within this range and reasonably reflects the annual capital work requirements for this program.

¹ Capital expenditures averaged \$8.1 million in 2023/2024 and \$6.1 million in 2021/2022; an increase of \$2.0 million, or 33%. On an inflation-adjusted basis, capital expenditures averaged \$8.2 million in 2023/2024 and \$6.7 million in 2021/2022; an increase of \$1.5 million, or 22%. Inflationary increases account for approximately \$0.5 million of the variance (\$2.0 million - \$1.5 million = \$0.5 million).

² Higher material costs are largely driven by increases in the price of base metals, conductors, and wood. Average weighted distribution wood pole cost was approximately \$607 in 2021 and \$865 in 2024, an increase of 43%.

³ Major events in 2024 included a landslide in the Corner Brook area and an ice storm affecting the Trepassey area. See the Company's *2024 Capital Expenditure Report*, Appendix A, page 3 of 5 for additional information.

⁴ 455 transformers were replaced due to rust in 2024, whereas the planned amount was 366, representing a 24% increase. See the Company's *2024 Capital Expenditure Report*, Appendix A, page 3 of 5 for additional information.

- b) Table 1 provides the breakdown of total expenditure for the *Reconstruction* program from 2021 to 2025 forecast.

Table 1 <i>Reconstruction</i> Program Expenditure by Cost Category (\$000s)					
Cost-Category	2021	2022	2023	2024	2025F
Material	1,334	1,237	1,820	2,136	1,782
Labour – Internal	2,734	2,807	3,205	3,366	3,118
Labour – Contract	1,178	1,361	1,572	2,059	1,262
Engineering	513	449	772	738	743
Other	200	325	253	334	520
Total	5,959	6,179	7,622	8,633	7,425

- c) The increase reflects the forecast annual inflation over the 5-year period from 2026 through 2030. Historical annual expenditures over the 5-year period from 2021 through 2025 forecast are adjusted to remove additional costs related to major events and inflation-adjusted in current-year dollars. The average of these adjusted costs is used as the base year. The base year is adjusted for the inflationary increases forecast for the budget year using the Company's internal labour rate for labour costs and the GDP Deflator for Canada for non-labour to determine the proposed capital program budget for 2026 and forecast budgets from 2027 through 2030.