

Q. Reference: Schedule B, 2014 Capital Projects – Normal Capital (Historical Pattern) Rebuild Distribution Lines (Pooled) page 44 of 85:

This project is a \$3,462,000 project that the application states is based on historical expenditures. Please explain how the 2014 estimate was arrived at in light of the Expenditure History from 2009 to 2013F found at Table 2 at page 45 of 85.

A. The 2014 Rebuild Distribution Lines budget submission of \$3,462,000 was determined from the average expenditure over the past 3 years (2011 to 2013). Expenditures over the 3 year period were converted to 2013 dollars. The average of the converted expenditures was inflated to 2014 dollars. A further adjustment was necessary as a result of a significant increase in pole and anchor contract rates.¹

Historical data was converted to 2013 dollars and subsequently inflated to 2014 dollars by applying actual internal labour rate changes to internal labour costs and the Gross Domestic Product Inflator to non-labour costs.

The calculation is shown in Table 1.

Table 1
Calculation of 2014 Rebuild Distribution Lines Budget
(\$000)

	<u>2011</u>	<u>2012</u>	<u>2013F</u>	<u>Average</u>	<u>2014F</u>
Actual Expenditure	2,413	3,723	2,997		
Converted to 2013 dollars	2,559	3,819	2,997	3,125	3,125
Inflated to 2014 Dollars					122
Adjustment for Pole Contract					<u>215</u>
					3,462

¹ In 2013 the Company negotiated contracts for pole installation, including fixed pricing for 3 years through 2015. The new contracts reflect a 30% increase from pricing last fixed in 2009.