

1 **Q. Reference: Volume I, Schedule B-I, Issue Topic: Operating Efficiencies**

2 Please provide a breakdown of System Equipment and Maintenance for the years 2019 to the
3 2027 test year as well as the 2019 test year. Please also include explanations for any annual cost
4 differences $\pm$ \$1.0 million.

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7 **A.** Please refer to NP-NLH-055, Attachment 1 for the breakdown of System Equipment and
8 Maintenance (“SEM”) and Professional Services. Please refer to PUB-NLH-010, Attachment 2 for
9 the detailed budget approach, including the cost escalation basis. Both SEM and Professional
10 Services were budgeted primarily using detailed work plans.

11 Please refer to the following for SEM explanations for annual cost variances:

12 ***2019 Actuals vs 2019 Test Year***

13 The decrease of \$3.9 million in SEM from 2019 Test Year to 2019 Actuals is primarily due to:

- 14 • Decrease in thermal and gas turbines driven by higher capitalized costs in 2019 Actuals
15 (\$2.7 million);
- 16 • Decrease in Transmission and Rural Operation (“TRO”) due to a scope change on the
17 transformer move project (\$0.3 million); and
- 18 • Other reductions, including a reduction of freight and material costs in supply chain
19 (\$0.4 million) and a decrease in Engineering services due to less materials (\$0.2 million).

20 ***2020 Actuals vs 2019 Actuals***

21 The decrease of \$2.4 million in SEM from 2019 to 2020 is primarily due to:

- 22 • Within TRO, costs decreased primarily due to reduced materials purchases associated
23 with COVID-19-pandemic-related restrictions in 2020, higher equipment-related
24 maintenance activity in 2019, and normal year-over-year variation in operating projects
25 (\$1.5 million);

- Higher capitalized costs in 2020 relating to Thermal In-Service failures (\$0.4 million); and
- Decrease in hydro generation driven by materials and contract labour. In 2019, there was a higher requirement due to the nature and timing of repairs, such as the penstock leak repairs. In addition, there was a flow net study in Bay d’Espoir in 2019 (\$0.4 million).

2021 Actuals vs 2020 Actuals

The increase of \$1.3 million from 2020 to 2021 is primarily related to:

- Increased maintenance costs in thermal and gas turbine operations driven by the thermal plant life extension condition assessment, higher boiler maintenance contract costs, repairs and maintenance projects, and other emergency repair work completed in 2021 (\$1.3 million).

2023 Actuals vs 2022 Actuals

The increase of \$7.8 million from 2022 to 2023 is primarily related to:

- Decommissioning of Transmission Line L1301 in 2023 (costs associated with this removal project are deferred as part of Newfoundland and Labrador Hydro’s (“Hydro”) removal deferral provision with no impact to total operating costs) (\$4.3 million);
- Increased maintenance costs in thermal operations due to boiler stack inspections in 2023, increased boiler maintenance costs and other maintenance costs (\$2.8 million); and
- Increased maintenance costs in hydro generation due to penstock weld repairs, Upper Salmon structure assessment, and other repairs in Bay d’Espoir (\$0.5 million).

2024 Actuals vs 2023 Actuals

The decrease of \$5.4 million from 2023 to 2024 is primarily related to:

- Decommissioning of Transmission Line L1301 completed in 2023 (costs associated with this removal project are deferred as part of Hydro’s removal deferral provision with no impact to total operating costs). The majority of the removal activity occurred in 2023,

1 resulting in a decrease in 2024 (\$3.5 million). In addition, there was a decrease in
2 materials due to equipment failures in 2023 (\$0.4 million); and

- 3 • Decreased maintenance costs in thermal, mainly due to two boiler stack inspections
4 completed in 2023 in comparison to one inspection in 2024. In addition, there was a
5 non-recurring dredging of the Indian Pond project in 2023 (\$1.6 million).

6 ***2025 Actuals vs 2024 Actuals***

7 The increase of \$5.8 million from 2024 to 2025 is primarily related to:

- 8 • Decommissioning of Tank 2 in Holyrood as part of the Holyrood Thermal Asset
9 Retirement Obligation. The costs have no impact on total operating costs as they are
10 offset in Cost Recovery;¹
- 11 • Borescope inspections, higher boiler maintenance contract costs due to increased
12 scope, other increased maintenance scopes and less work capitalized in 2025; partially
13 offset by boiler stack inspections completed in 2024 (\$1.7 million);
- 14 • Information systems project implementation costs were approved to be deferred (Board
15 of Commissioners of Public Utilities Order No. P.U. 1(2026)). The costs included in SEM
16 are offset in cost recoveries with no net impact to total operating costs (\$1.0 million);
17 and
- 18 • Removal of Transmission Line TL202 and distribution. Costs associated with this removal
19 project are deferred as part of Hydro's removal deferral provision with no impact to
20 total operating costs (\$1.3 million).

21 ***2027 Test Year vs 2026 Forecast***

22 The decrease of \$2.5 million from the 2026 Forecast to 2027 Test Year is primarily related to:

- 23 • Completion of the Nain site removal operating project included in the 2026 forecast,
24 that is not required in the 2027 Test Year. Costs associated with this removal project are

¹ Costs associated with this decommissioning project were transferred out of operating costs. Costs that were previously expensed as part of the Asset Retirement Obligation were transferred to that account (\$1.4 million) and the portion that was not expensed was transferred to Other Expense (\$0.7 million).

- 1 deferred as part of Hydro's removal deferral provision and therefore have no impact on
- 2 total operating costs.

Newfoundland and Labrador Hydro
Total System Equipment and Maintenance Expenses
(\$000)¹

	2019 Test Year	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Test Year
Direct Purchases	-	37	38	51	48	41	16	976	18	18
Materials	11,075	9,114	7,935	8,196	8,054	8,886	8,154	8,289	8,873	9,023
Contract Labour	13,456	11,909	10,663	11,784	12,474	19,143	14,469	19,162	18,818	16,323
Inventory Consumables	-	1	-	-	2	-	-	8	-	-
Contract Materials	290	47	2	(74)	86	6	239	51	275	280
Tools & Operating Supplies	469	412	315	435	172	288	215	244	237	241
Lubes, Chems & Gases	1,029	886	1,034	880	865	1,026	944	1,118	1,006	1,025
Freight	477	476	503	547	599	672	587	566	618	628
Total System Equipment and Maintenance Expenses	26,796	22,883	20,491	21,819	22,299	30,060	24,623	30,414	29,845	27,538

¹ Numbers may not add due to rounding.

Newfoundland and Labrador Hydro										
Total Professional Services Expenses										
(\$000) ¹										
2019	2019	2020	2021	2022	2023	2024	2025	2026	2027	
Test Year	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Test Year	
Consultants	5,070	3,939	3,592	4,487	5,142	6,214	9,938	7,670	7,265	
Audit Fees	125	121	120	131	123	115	125	131	133	
Legal	425	80	238	81	186	265	393	471	327	
Board of Commissioners of Public Utilities Costs	2,000	1,921	1,886	1,166	938	1,226	1,679	1,403	2,886	
Software Licenses & Maintenance	1,205	1,360	1,495	1,696	1,889	2,222	2,640	2,900	3,032	
Total Professional Services Expenses	8,825	7,422	7,330	7,560	8,279	10,043	15,092	12,575	13,644	

¹ Numbers may not add due to rounding.