Q. **Reference: Volume I, page 3.11, Operations Costs – Table 3-5**

Hydro notes that a key driver of the increases in operating costs includes market-driven contract cost escalations, including higher contract labour costs.

a) Illustrate the market-driven cost escalations and higher contract labour costs that Hydro is experiencing.

b) What rate of increase is Hydro using in its forecast for contract costs and contract labour?

A. **a)** Newfoundland and Labrador Hydro ("Hydro") has experienced market-driven increases in contractor pricing, including higher rates for recurring maintenance and operational contracts due to inflationary pressures and competition for skilled contractor resources. Examples include vegetation management, snow clearing, boiler maintenance, general maintenance, and engine and generator maintenance contracts.

b) Hydro uses a zero-based budget approach for its contract labour costs. Budget expenditures are based on operating requirement expectations and budgeted on a detailed level. During the 2025 budget cycle, departments were required to develop the expected expenditures for 2025 to 2027, which ultimately became the 2027 Test Year figures. There was no specific escalation rate provided for contract labour. For that reason, it will vary from contract to contract. Some costs would be based on actual escalated contract rates or industry trends. Any escalations would have been determined based on the given circumstances and the discretion of the budget holder of the designated area.