

1 Q. **2017 General Rate Application - Operations**

2 Page 3.34, footnote 72 – Provide a list of the 2016 targeted reductions and  
3 efficiency opportunities that were implemented, identify the savings achieved by  
4 each opportunity and explain why each opportunity could not be sustained.

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6 A. In early 2016, direction was given by the Executive to management to review  
7 operations and, without compromising safety and reliability, identify options to  
8 reduce costs in the short-term. This had the effect of creating an immediate focus  
9 on cost reduction, without consideration of sustainability. At that time, Hydro had  
10 submitted a 2015 Test Year operating cost of \$139.8 million, the 2015 actual costs  
11 were \$150.9 million and there was uncertainty regarding cost recovery. The  
12 provincial government also provided direction to government departments, crown  
13 corporations, and agencies to reduce costs.

14

15 This direction resulted in Hydro management identifying the following actions to  
16 achieve a \$9.7 million cost reduction target:

- 17 • Review all service agreements and contracts to reduce costs (professional  
18 services and contract labour, including vegetation management);
- 19 • Conduct mandatory training only;
- 20 • Eliminate all conferences and related travel, including that which was also  
21 training in nature;
- 22 • Reduce travel as much as possible and conduct travel that is operationally  
23 critical only; and,
- 24 • Reduce costs in all other areas where possible.

1 In addition, control and efficiency opportunities were implemented including:

- 2 • Aggressive management of all hiring. All requests for new hires were approved  
3 through a process of justification and assessment by Human Resources and  
4 executive approval;
- 5 • Increased monitoring and management of overtime by implementing additional  
6 approval by area managers;
- 7 • Establishment of regular meetings of senior leadership focused on cost control;
- 8 • Automation of billings combined with a review and audit process implemented  
9 for cell phone bill; and
- 10 • Automation of mobile fleet billings to facilitate an improved capturing of costs.

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12 In addition to the \$9.7M targeted reduction, an additional \$5.9 million was also  
13 achieved, largely through a reduction in the employee future benefits expense of  
14 \$1.8 million and higher than planned capitalized costs of \$3.6 million. All of these  
15 actions resulted in cost reductions totaling \$16.9 million compared to the 2016  
16 budget. An assessment of these savings is provided in PUB-NLH-054 Attachment 1,  
17 which compares the actual 2016 results to the 2016 budget.

18

19 While the cost reduction measures were very successful, a number of those costs  
20 were not sustainable. Examples include:

- 21 • Vegetation management – while vegetation management can be reduced in  
22 any given year, successive years of insufficient vegetation management has  
23 the risk of increasing both outages and costs relating to responding to those  
24 outages;
- 25 • Training and conferences – a level of employee training beyond what is  
26 mandatory is required in order for Hydro to maintain an engaged and trained

1 workforce that is capable of operating, maintaining and managing a complex  
2 electrical system.

- 3 • Travel – Hydro operates over a large geographic territory. Its employees  
4 have to travel to maintain reliable, safe electric service. Its supervisors and  
5 managers must travel to ensure that employees are adequately supervised,  
6 coached and informed in order to do their jobs effectively.

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8 During 2016 and 2017 Hydro has gone through significant change as it established  
9 its own executive team focused solely on Hydro’s performance and operations. It  
10 also undertook a functional separation from Nalcor that required it to ensure that it  
11 was adequately resourced to carry out many functions that had previously been  
12 provided by Nalcor. This evolution has been ongoing while Hydro is planning and  
13 executing the required actions related to upcoming significant changes in the  
14 provincial electric system. Also during this significant change, Hydro has continued  
15 to participate in, and receive input from, regulatory proceedings which guide the  
16 decisions regarding the management and operation of Hydro’s assets, so that Hydro  
17 continues to be responsive to customers’ expectations of a safe, reliable electrical  
18 system.

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20 Hydro management continues to ensure that many of the actions that achieved  
21 results in 2015 are sustained, including components of all of the actions listed  
22 above. Hydro also intends to continue an aggressive approach to cost management  
23 and control. Senior leadership is acutely aware of the economic pressures facing  
24 the province and customers. Hydro intends to manage its operations efficiently and  
25 productively wherever possible while maintaining the reliable service that  
26 customers expect. Hydro has adjusted its expectations and targets to sustainable

- 1 levels such that it is able to achieve a least cost, reliable service for Newfoundland
- 2 and Labrador electricity consumers over the long run.

**Total Operating Expenses by Cost category**  
\$000s

	<b>2016 Original Budget</b>	<b>Target Reduction</b>	<b>Variance Target vs Actual</b>	<b>2016 Actual</b>
<b>Labour</b>				
Labour related costs	86,200	(231)	(116)	85,852
Capital Labour	(17,217)	(521)	(3,634)	(21,371)
Employee future benefits	8,747	-	(1,845)	6,902
Overtime	4,618	(495)	2,041	6,164
<b>Total Labour</b>	<b>82,348</b>	<b>(1,247)</b>	<b>(3,554)</b>	<b>77,547</b>
<b>System Equipment and Maintenance</b>	<b>29,926</b>	<b>(3,986)</b>	<b>(892)</b>	<b>25,048</b>
<b>Other</b>				
Office supplies and expenses	2,635	(147)	(240)	2,249
Professional services	8,792	(1,690)	(440)	6,662
Insurance	2,658	0	(128)	2,530
Equipment rentals	2,954	(204)	1,447	4,197
Travel	3,446	(850)	(611)	1,984
Training	839	(339)	(110)	390
Miscellaneous expenses	5,505	(401)	(523)	4,581
Building rental and maintenance	1,216	(173)	66	1,109
Transportation	1,846	(770)	(220)	856
Customer costs	118	(0)	9	126
<b>Total Other</b>	<b>30,008</b>	<b>(4,574)</b>	<b>(749)</b>	<b>24,685</b>
<b>Cost Allocations</b>	<b>(2,713)</b>	<b>33</b>	<b>(689)</b>	<b>(3,369)</b>
<b>Total operating costs</b>	<b>139,569</b>	<b>(9,774)</b>	<b>(5,883)</b>	<b>123,912</b>