

- 1 Q. Below are reproductions of Tables 2-7 and 2-13 from the Application with the
2 percentage change between years in italics. (For example, 0.56% is the increase in
3 Gross Operating Costs between 2015 and 2016).

Table 2-7: Gross Operating Costs 2015 to 2020F (\$000s)											
	2015		2016		2017		2018F		2019F		2020F
	57,600	<i>0.56%</i>	57,922	<i>3.04%</i>	59,680	<i>1.03%</i>	60,294	<i>3.99%</i>	62,698	<i>1.52%</i>	63,648
Table 2-13: Labour Costs by Breakdown 2015 to 2020F (\$000s)											
	2015		2016		2017		2018F		2019F		2020F
Regular & Standby	29,700	<i>-1.25%</i>	29,329	<i>4.13%</i>	30,539	<i>-0.25%</i>	30,463	<i>2.19%</i>	31,131	<i>1.27%</i>	31,525
Temporary	1,832	<i>-0.38%</i>	1,825	<i>0.60%</i>	1,836	<i>1.74%</i>	1,868	<i>25.43%</i>	2,343	<i>0.21%</i>	2,348
Overtime	2,409	<i>8.18%</i>	2,606	<i>29.09%</i>	3,364	<i>16.97%</i>	2,793	<i>1.75%</i>	2,842	<i>2.01%</i>	2,899
Total	33,941	<i>-0.53%</i>	33,760	<i>5.86%</i>	35,739	<i>-1.72%</i>	35,124	<i>3.39%</i>	36,316	<i>1.26%</i>	36,772

- 4
5 a) Please specify the reasons for the following differences in operating costs and
6 labour costs:
7 **2017-2018F: 1.03% increase in operating costs compared to 1.72% reduction in**
8 **labour costs;**
9 **2018F-2019F: 3.99% increase in operating costs compared to 3.39% increase in**
10 **labour costs;**
11 **2019F-2020F: 1.52% increase in operating costs compared to 1.26% increase in**
12 **labour costs**
13
14 b) Newfoundland Power states that temporary labour costs are forecast to increase
15 in part because of the Customer Service System replacement. Please explain why
16 the Company plans to use temporary labour for this project.

- 17
18 A. a) In determining total gross operating costs, Newfoundland Power considers operating
19 requirements separately for: (i) labour costs; and (ii) other costs, also referred to as
20 non-labour costs. Variations in gross operating costs reflect a combination of
21 changes in both of these categories.

22
23 **Labour Costs**

24 Annual variations in Newfoundland Power's labour costs reflect a combination of
25 labour rate inflation and changes in the Company's annual operational requirements.

26
27 Labour rate inflation is a combination of base wage increases and forecast

1 progression increases in employees' wages as a result of experience. For example,
2 2020 includes a 1.25% estimated base wage increase and a 0.75% forecast
3 progression.¹
4

5 Table 1 shows changes in operating labour costs for the period 2017 to 2020F.

Table 1:
Changes in Operating Labour
2017 to 2020F
(\$000s)

	2017	2018F	2019F	2020F
Labour	35,739	35,124	36,316	36,772
Percent Change	-	(1.72%)	3.39%	1.26%

6 The decrease in labour costs from 2017 to 2018 reflects reduced costs for overtime, as
7 2017 included restoration efforts following a severe wind storm in March 2017.
8

9 Increased labour costs in 2019F and 2020F reflect labour rate inflation and additional
10 operating labour required to support replacement of the Company's Customer Service
11 System.²
12

Non-Labour Costs

13 Newfoundland Power forecasts non-labour costs based upon: (i) inflationary
14 increases using the GDP deflator of Canada; and (ii) annual changes in the
15 Company's operational requirements.³
16

17
18 Examples of variations in non-labour costs due to changes in operational
19 requirements include increased regulatory activity over the forecast period and lower
20 postage requirements achieved through increased customer participation in ebills.⁴
21

22 b) Please see response to Request for Information PUB-NP-016 for an explanation of
23 why the Company plans to use temporary labour costs for replacement of its
24 Customer Service System.

¹ Weighted labour rate increases were 3.54% in 2016, 3.13% in 2017, and are forecast to be 1.75% in 2018 and 2019, and 2.00% in 2020. Weighted labour rate increases for 2018 to 2020 forecast reflect the Company's latest offer to the union.

² See response to Request for Information PUB-NP-008 for more information on replacement of the Company's Customer Service System.

³ The GDP deflator for Canada was recognized as a reasonable measure by the Board in Order No. P.U. 36 (1998-1999). The GDP rate increases are 0.60% in 2016, 2.54% in 2017, 2.31% in 2018, 1.91% in 2019 and 1.87% in 2020.

⁴ See *Volume 1, Application, Company Evidence and Exhibits, Section 2.4.1 Operating Costs*, page 2-32 to 2-40, for additional information regarding variations in operating costs.