

1 **Q. Newfoundland Power states 85% of the costs to provide service to customers are**
2 **due to purchased power costs and fixed costs such as finance charges and**
3 **depreciation and that these 85% of costs are largely beyond management's control.**
4 **It further states " [I]abour costs account for over 1/2 of Newfoundland Power's**
5 **annual operating costs. These are the costs over which Newfoundland Power**
6 **management can assert the most control. Between 2015 and 2020, Newfoundland**
7 **Power expects its annual operating labour costs to increase by approximately 1.7%**
8 **per year. This is lower than Newfoundland Power's labour rate inflation and**
9 **indicates sound cost management over the forecast period."**

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- 11 a) **Please provide a table showing the 15% of costs alluded to in the statement**
12 **above, broken down by function and breakdown, for the years 2015-2020.**
- 13 b) **Please provide a comparison of the percentage of costs other utilities incur for**
14 **fixed costs, legislated costs, purchased power costs etc. In other words, how does**
15 **the percentage of costs over which Newfoundland Power has management**
16 **control compare to other utilities in Canada? For the purposes of this question**
17 **please use the list of investor owned utilities considered in Mr. Coyne's evidence:**
18 **ATCO Electric; FortisAlberta; FortisBC Electric; FortisOntario Inc.; other**
19 **Ontario electric distributors; Maritime Electric; and Nova Scotia Power.**
- 20 c) **Please comment on the how much management control Fortis Inc. exerts over**
21 **the 15% of costs alluded to above. In support of the response, please provide any**
22 **agreements, memorandums of understanding or other documents which set out**
23 **Fortis Inc. involvement in Newfoundland Power's cost decision making. If no**
24 **document(s) exists, please specify the circumstances where Newfoundland Power**
25 **seeks approval from Fortis Inc. for cost decisions.**
- 26 d) **Given where Newfoundland Power can assert the most control over its operating**
27 **costs, is the Company putting undue pressure on labour costs to accommodate**
28 **rising power supply and fixed costs such as financing charges?**

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- 30 A. a) The 15% of costs referred to in the statement above represent Newfoundland Power's
31 operating costs. Details of the Company's operating costs by function and
32 breakdown are provided in *Exhibit 1: Operating Costs by Function (2015–2020F)*,
33 and *Exhibit 2: Operating Costs by Breakdown (2015-2020F)* in *Volume 1,*
34 *Application, Company Evidence and Exhibits.*
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- 36 b) Newfoundland Power did not refer to or rely on the requested information in its
37 *2019/2020 General Rate Application*. Further, the Company does not track or
38 maintain information relating to fixed costs, legislated costs, purchased power costs
39 etc. of other utilities. The information requested may be available publicly through
40 each utility's website or through Sedar (www.sedar.com). If the IBEW wishes to
41 submit the requested information as part of the evidentiary record in this matter, it can
42 do so pursuant to the terms of Order No. P.U. 24 (2018).

- 1 c) Newfoundland Power is operated and financed independently of Fortis with its own
2 executive team and board of directors. This is consistent with the expectations of the
3 Board and the Company's credit rating agencies.¹ Fortis does not participate in or
4 direct management decisions relating to Newfoundland Power. This includes
5 decisions related to operating costs.
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- 7 d) No. Newfoundland Power's labour costs are reflective of work requirements that
8 occur or are expected to occur in a given year. This includes both operating and
9 capital work requirements. Wages associated with unionized employees are
10 determined through the collective bargaining process. During this process, the
11 Company aims to be competitive with Atlantic Canadian utility companies. See the
12 response to Request for Information IBEW-NP-005 for information relating to wages
13 for non-union employees.

¹ In Order No. P.U. 19(2003) the Board concluded that in the interest of both the utility and its customers, Newfoundland Power should continue to be treated as a stand-alone utility. The Company's credit rating from Moody's is provided in *Volume 1, Application, Company Evidence and Exhibits, Exhibit 4*. Moody's states at page 4: "While NPI is one of a number of utility operating companies owned by FTS, we consider NPI, like sister companies FortisAlberta Inc. (FAB: Baa1 stable), FortisBC Inc. (FBC: Baa1 stable) and FortisBC Energy Inc. (FEI: A3 stable) to be operationally and financially independent from Fortis, a credit positive."