

1 **Q. Reference: “2022/2023 General Rate Application,” Newfoundland Power, May 27,**  
2 **2021, Volume 2, Report 6, Section 3.4, Page 9 of 13.**

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4 **Newfoundland Power’s evidence states:**

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6 **Non-Construction Activities**

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8 **Finance, human resources and information systems requirements would be**  
9 **lower if there was no capital program.**

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11 **Given the nature of these departments, it is challenging to estimate a specific**  
12 **reduction in general expenses that would occur if there was no capital**  
13 **program. The Board has suggested the use of a nominal rate of 10% as a**  
14 **reasonable proxy in these circumstances. Adjusting the GEC ratio for these**  
15 **non-construction activities to a nominal rate of 10% is therefore appropriate.**

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17 **Please indicate the number of full-time equivalents that would be reduced in these**  
18 **departments if there was no capital program. If this is not possible, please indicate if**  
19 **the approach of assigning ‘10% as a reasonable proxy’ is more consistent with the**  
20 **full cost method or the incremental method.**

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22 **A.** In Order No. P.U. 3 (1995-96), the Board approved Newfoundland Power’s proposal to  
23 use the incremental method to allocate general expenses to General Expenses Capitalized  
24 (“GEC”).<sup>1</sup> In that order, the Board required general expenses related to certain non-  
25 construction activities, such as finance and human resources activities, be included in the  
26 Company’s GEC calculation.<sup>2</sup> The Board accepted the use of a nominal rate of 10% as  
27 reasonable to allocate general expenses related to certain non-construction activities to  
28 GEC.<sup>3</sup>

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30 As indicated in the *Review of General Expenses Capitalized* (the “GEC Review”), there  
31 would be lower work requirements performed by the finance, human resources and  
32 information systems departments if there were no capital program.<sup>4</sup> Given the nature of  
33 these departments, Newfoundland Power cannot provide a specific reduction in full-time  
34 equivalents for non-construction activities if there were no capital program.

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36 Consistent with the Board’s findings in Order No. P.U. 3 (1995-96) and the results of the  
37 GEC Review, the use of a nominal rate of 10% is reasonable to use in these  
38 circumstances and reflects the incremental cost method.

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<sup>1</sup> See Order No. P.U. 3 (1995-96), page 28.

<sup>2</sup> The Board found that it would be unrealistic to suggest that there would be no reduction in these general expenses if there were no capital program. See Order No. P.U. 3 (1995-96), pages 18 to 21.

<sup>3</sup> See Order No. P.U. 3 (1995-96), page 19.

<sup>4</sup> See the *2022/2023 General Rate Application, Volume 2, Supporting Materials, Tab 6, Review of General Expenses Capitalized, Appendix B, Section 3.0 Non-Construction Activities* for a fulsome discussion on the type of work requirements that would be reduced by these departments if there were no capital program.