Section 2: Customer Operation/Operating Costs

Q. (Section 2, page 2-34) It is stated "*Operating labour costs are an indicator of efficiency in Newfoundland Power's day-to-day operations.*"

a) Please confirm that operating labour costs in 2026 are forecast to be 12.4% greater than 2022 levels and compare that to the forecast increase in the Canada GDP deflator over the same time.

b) Do these labour costs include the labour associated with capital projects contained in Capital Budget Applications?

c) In the Labour Forecast, 2024-2026 (Volume 2), no mention is made of productivity improvements and the impact on labour (a search for the word "productivity" returns no references). Are efficiency and productivity improvements brought on by programs and projects in the Capital Budget Applications, and through productivity improvements made by Newfoundland Power between GRAs to increase its rate of return above the midpoint approved by the Board ignored?

d) Did Newfoundland Power incorporate an explicit productivity improvement in the GRA? If so, please provide the reference.

A. a) It is confirmed. The total operating labour increase from 2022 actual to 2026 forecast is 12.4%, or 3.1% on an average annual basis. This is a 1% reduction from the Company's *pro forma* total operating labour increase of 16.4%, or 4.1% on an average annual basis.[1] This represents an operating labour efficiency of approximately 1% on an average annual basis.

Using the Canada GDP deflator from 2022 actual to 2026 forecast would result in an overall increase of 6.2%.[2] It is the Company's position that its internal weighted labour inflation rate for its labour costs is the most relevant inflation rate to use for forecasting labour costs.

The Company's actual weighted labour rates reflect the collectively bargained wage increases for union employees, market changes for non-union employees and forecast progression increases in employee's wages as a result of experience. The Company uses its internal weighted labour rate increases to forecast its labour requirements for both operating and capital.

b) No. The labour costs included in Section 2, page 2-34, Table 2-8 represent only the operating labour requirements for the Company. The proposed operating labour requirements forecast for 2025 and 2026 are included in the Company's test year revenue requirements.

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1 The Company's internal weighted labour rate increases are 3.00% in 2022, 2.75% in 2023, 3.80% in 2024, 4.45% in 2025 and 4.50% in 2026. These rates also include a forecast progression rate of 0.75%. See Newfoundland Power's *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2, Customer Operations,* page 2-31, footnote 57.

2 Non-labour costs are inflation-adjusted using GDP deflators from the Conference Board of Canada's data released on August 2, 2023.

c) Newfoundland Power has incorporated operating savings associated with approved capital projects within its test year operating forecast. For example, *Application Enhancements* projects are reviewed and approved by the Board as part of the Company's annual capital budget applications. These enhancements are forecast to reduce operating labour costs by a total of approximately $480,000 by 2026 forecast. This is approximately 1% of forecast operating labour in 2026.[3]

See the response to Request for Information PUB-NP-036 for additional information on the operating savings related to *Application Enhancements*. See also the response to Request for Information PUB-NP-017.

d) See part c) of this response.

[3] $480,000 / $43,882,000 (2026 forecast operating labour costs) = 0.01, or approximately 1%. See *Newfoundland Power's 2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2, Customer Operations*, page 2-35, Table 2-9.