

**Section 2: Customer Operations/Operating Costs**

**Q. In reference to the table, included below, from PUB Information Request (ii), “Schedule B, Attachment 5, Exhibit 2 Including 2022 and 2023 Test Year Figures”, please provide detailed explanations for the following:**

| <b>Breakdown</b>                                       | <b>Test Year 2022</b> | <b>Test Year 2023</b> | <b>Actual 2022</b> | <b>Forecast 2023</b> | <b>Forecast 2024</b> | <b>Forecast 2025</b> | <b>Forecast 2026</b> |
|--|-----------------------|-----------------------|--------------------|----------------------|----------------------|----------------------|----------------------|
| 1 Regular and Standby                                  | 31,651                | 33,148                | 34,794             | 34,820               | 36,099               | 37,557               | 39,156               |
| 2 Temporary  | 2,050                 | 2,108                 | 541                | 665                  | 691                  | 721                  | 754                  |
| 3 Overtime   | 3,300                 | 3,537                 | 3,702              | 3,507                | 3,639                | 3,801                | 3,972                |
| 4 <b>Total Labour</b>                                  | <b>37,001</b>         | <b>38,793</b>         | <b>39,037</b>      | <b>38,992</b>        | <b>40,429</b>        | <b>42,079</b>        | <b>43,882</b>        |
| 5  |                       |                       |                    |                      |                      |                      |                      |
| 6 Vehicle Expenses                                     | 1,702                 | 1,730                 | 2,184              | 2,101                | 2,142                | 2,177                | 2,212                |
| 7 Operating Materials                                  | 1,266                 | 1,287                 | 1,254              | 1,265                | 1,290                | 1,311                | 1,332                |
| 8 Inter-Company Charges                                | 27                    | 28                    | 27                 | 27                   | 28                   | 28                   | 29                   |
| 9 Plants, Substations, System Operations and Buildings | 3,434                 | 3,492                 | 3,716              | 3,750                | 3,823                | 3,885                | 3,948                |
| 10 Travel  | 876                   | 891                   | 1,120              | 1,148                | 1,179                | 1,198                | 1,217                |
| 11 Tools and Clothing Allowance                        | 1,244                 | 1,265                 | 1,372              | 1,384                | 1,411                | 1,434                | 1,458                |
| 12 Miscellaneous                                       | 1,568                 | 1,595                 | 1,467              | 1,608                | 1,640                | 1,663                | 1,691                |
| 13 Taxes and Assessments                               | 1,162                 | 1,181                 | 1,388              | 1,401                | 1,428                | 1,451                | 1,475                |
| 14 Uncollectible Bills                                 | 2,172                 | 2,208                 | 2,027              | 2,045                | 2,186                | 2,222                | 2,258                |
| 15 Insurance   | 2,306                 | 2,345                 | 2,214              | 2,428                | 2,621                | 2,773                | 2,932                |
| 16 Severance and Other Employee Costs                  | 131                   | 133                   | 156                | 157                  | 160                  | 163                  | 166                  |
| 17 Education, Training and Employee Fees               | 348                   | 354                   | 396                | 508                  | 512                  | 520                  | 528                  |
| 18 Trustee and Directors' Fees                         | 701                   | 712                   | 687                | 693                  | 760                  | 772                  | 785                  |
| 19 Other Company Fees                                  | 2,868                 | 2,574                 | 2,945              | 3,572                | 5,131                | 4,771                | 4,672                |
| 20 Stationery and Copying                              | 256                   | 260                   | 240                | 242                  | 247                  | 251                  | 255                  |
| 21 Equipment Rental and Maintenance                    | 832                   | 897                   | 671                | 677                  | 690                  | 702                  | 713                  |
| 22 Telecommunications                                  | 1,562                 | 1,588                 | 1,655              | 1,680                | 1,748                | 1,775                | 1,791                |
| 23 Postage   | 1,244                 | 1,202                 | 1,282              | 1,221                | 1,209                | 1,207                | 1,203                |
| 24 Advertising   | 525                   | 534                   | 583                | 600                  | 609                  | 622                  | 632                  |
| 25 Vegetation Management                               | 2,401                 | 2,441                 | 3,230              | 3,259                | 3,323                | 3,377                | 3,432                |
| 26 Computing Equipment and Software                    | 2,856                 | 3,446                 | 2,879              | 3,734                | 4,272                | 4,702                | 4,992                |
| 27 <b>Total Other</b>                                  | <b>29,481</b>         | <b>30,163</b>         | <b>31,493</b>      | <b>33,500</b>        | <b>36,409</b>        | <b>37,004</b>        | <b>37,721</b>        |
| 28   |                       |                       |                    |                      |                      |                      |                      |
| 29 <b>Gross Operating Cost</b>                         | <b>66,482</b>         | <b>68,956</b>         | <b>70,530</b>      | <b>72,492</b>        | <b>76,838</b>        | <b>79,083</b>        | <b>81,603</b>        |

- a) The 21% increase in Vehicle Expenses in 2023 Forecast to \$2.10 million as compared to the 2023 test year of \$1.73 million.
- b) The 11% increase in Plant, Substations, System Operations and Buildings expenses in the 2025 Forecast of \$3.89 million as compared to the 2023 test year of \$3.49 million. Also provide the reason for the increase in the 2023 Forecast to \$3.75 million as compared to the 2023 test year.
- c) The 34% increase in Travel expenses in the 2025 Forecast of \$1.20 million as compared to the 2023 test year of \$0.891 million. Also provide the reason for the increase in the 2023 Forecast to \$1.15 million as compared to the \$0.891 million in the 2023 test year.
- d) The 18% increase in Insurance in the 2025 Forecast of \$2.77 million as compared to the 2023 test year of \$2.35 million.
- e) The 47% increase in Education, Training and Employee Fees in the 2025 Forecast of \$0.520 million as compared to the 2023 test year of \$0.354 million.
- f) Other Company Fees:
  - i) The 85% increase in the 2025 Forecast of \$4.77 million as compared to the 2023 Test Year of \$2.57 million.
  - ii) The increase in the 2023 Forecast to \$3.57 million as compared to the 2023 Test Year of \$2.57 million.

- 1                   iii) The decrease in the 2025 Forecast of \$4.77 million as compared to the  
2                   2024 Forecast of \$5.13 million.
- 3                   iv) The decrease in the 2026 Forecast of \$4.67 million as compared to the  
4                   2025 Forecast of \$4.77 million.
- 5           g) The 38% increase in Vegetation Management in the 2025 Forecast of \$3.38  
6           million as compared to the 2023 Test Year of \$2.44 million. Also provide the  
7           reason for the increase in the 2023 Forecast to \$3.26 million as compared to the  
8           \$2.44 million in the 2023 test year.
- 9           h) Computer Equipment and Software:
- 10           i) The 36% increase in the 2025 Forecast of \$4.70 million as compared to  
11           the 2023 test year of \$3.45 million.
- 12           ii) The increase in the 2023 Forecast to \$3.73 million as compared to the  
13           \$3.45 million in the 2023 Test Year.
- 14           iii) The increase in the 2026 Forecast to \$4.99 million as compared to the  
15           2025 Forecast of \$4.70 million.
- 16
- 17 A. Operating costs for the 2023 test year, which underpin existing customer rates, were  
18 established as part of Newfoundland Power's 2022/2023 *General Rate Application* filed  
19 in June 2021. Forecast operating costs for 2023 are \$72.5 million, or approximately 5.1%  
20 higher than the 2023 test year.<sup>1</sup>
- 21
- 22 The Company's operating costs include both labour and non-labour costs. Labour costs  
23 for 2023 forecast were largely consistent with the 2023 test year, which demonstrates  
24 reasonable labour efficiency.<sup>2</sup> Non-labour costs were \$3.3 million, or approximately 11%  
25 higher than the 2023 test year.<sup>3</sup>
- 26
- 27 Since June 2021, inflation rates in Canada have significantly increased. For example, in  
28 the 2022/2023 *General Rate Application* increases in the GDP deflator for Canada were  
29 forecast to be approximately 5.8% from 2020 to 2023.<sup>4</sup> Actual increases in the GDP  
30 deflator for Canada were significantly higher at approximately 17% from 2020 to 2023  
31 forecast.<sup>5</sup> This is approximately 11.2% higher than reflected in the Company's  
32 non-labour test year costs for 2023.<sup>6</sup> While not all of Newfoundland Power's non-labour  
33 costs trend in line with inflation, this demonstrates cost pressures the Company has  
34 experienced in 2023, as compared to the 2023 test year.

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<sup>1</sup> See PUB Information Request (ii), Schedule B, Attachment 5, Exhibit 2, line 29 filed as part of the Company's 2025/2026 *General Rate Application*. 2023 forecast gross operating costs of \$72.5 million less 2023 test year of \$69.0 million = \$3.5 million / \$69.0 million = approximately 5.1%.

<sup>2</sup> 2023 forecast labour costs are \$39.0 million compared to the 2023 test year of \$38.8 million. This is an increase of \$0.2 million, or approximately 0.5%.

<sup>3</sup> 2023 forecast non-labour costs are \$33.5 million compared to the 2023 test year of \$30.2 million. This is an increase of \$3.3 million, or approximately 11%.

<sup>4</sup>  $(1.1698 - 1.1053) / 1.1053 = 5.8\%$  based on the GDP deflators in the Conference Board of Canada ("CBOC") data release in February 2021.

<sup>5</sup>  $(1.2906 - 1.1027) / 1.1027 = 17.0\%$  based on the GDP deflators in the CBOC data release in August 2023.

<sup>6</sup>  $17.0\% \text{ less } 5.8\% = 11.2\%$ .

1 The requested variance explanations for specific non-labour cost increases from the 2023  
2 test year are as follows:

- 3
- 4 a) Vehicles expenses for 2023 forecast increased by \$371,000 from the 2023 test year due to  
5 higher fuel prices and increased maintenance costs, including inflationary increases.<sup>7</sup>  
6
- 7 b) Plants, substations, system operations and buildings costs for 2023 forecast increased by  
8 \$258,000 from the 2023 test year primarily due to higher costs for building maintenance,  
9 snow clearing services and generation taxes.<sup>8</sup> The increase in the 2025 forecast of  
10 \$135,000 from the 2023 forecast is due to inflationary increases.  
11
- 12 c) Travel costs for 2023 forecast increased by \$257,000 from the 2023 test year due to a  
13 return to normal level of Company travel due to the lifting of public health restrictions  
14 established during the COVID-19 pandemic and inflationary increases.<sup>9</sup> The increase in  
15 the 2025 forecast of \$50,000 from the 2023 forecast is due to inflationary increases.  
16
- 17 d) Insurance costs for 2025 are forecast to increase by \$428,000 from the 2023 test year  
18 primarily due to increased premiums, which is consistent with general market trends. The  
19 average annual cost increase has been approximately 14% over the last five renewal  
20 periods. The Company is forecasting annual insurance premiums to increase at  
21 approximately 6% for each of the 2024/2025 and 2025/2026 renewals.  
22
- 23 e) Education, training and employee fees for 2025 are forecast to increase by \$166,000 from  
24 the 2023 test year primarily due to the effect of the COVID-19 pandemic limiting group  
25 training from 2020 through 2022. For example, the 2023 forecast reflects higher group  
26 health and safety training costs when compared to 2022 of approximately \$70,000. The  
27 forecast increase in education, training and employee fees also reflects changes in the  
28 Company's workforce demographics.<sup>10</sup>  
29
- 30 f) Changes in other company fees over the 2023 through 2026 period reflect forecast costs  
31 associated with: (i) the Company's regulatory proceedings; (ii) upcoming changes in  
32 accounting standards related to converting to International Financial Reporting Standards  
33 ("IFRS");<sup>11</sup> (iii) regulatory proceedings associated with Newfoundland and Labrador  
34 Hydro ("Hydro"); and (iv) information technology, including cybersecurity. Consultant  
35 costs can vary significantly year over year based on the Company's expectations of  
36 annual work requirements.<sup>12</sup> The requested variance explanations for other company fees  
37 are as follows:

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<sup>7</sup> In September 2023, the retail motor fuel prices for regular unleaded on the Avalon Peninsula was 184.7 ¢/litre. This represents a 19% increase from its price in September 2021.  $[(184.7 - 154.8) / 154.8 = 19\%]$ .

<sup>8</sup> For example, the contractor prices for snow clearing services have increased by 21% since 2021. Generation taxes that are charged to the Company are subject to annual pricing increases using the Consumer Price Index.

<sup>9</sup> The 2023 test year forecast of \$891,000 for travel was lower than 2019 actual travel costs of \$1,089,000.

<sup>10</sup> For example, at the end of 2023, 31% of permanent employees had less than five years of experience at the Company compared to 9% at the end of 2020.

<sup>11</sup> See the response to Request for Information PUB-NP-022, part c) for details on costs forecast for 2024 through 2026 associated with the conversion to IFRS.

<sup>12</sup> For example, consultant costs related to the conversion to IFRS are forecast to be higher in 2024 at the beginning stages of the assessment. These costs are temporary and forecast to reduce over the forecast period.

- 1 i) The increase in the 2025 forecast of approximately \$2.2 million from the 2023  
2 test year is primarily due to: \$1.0 million related to the conversion to IFRS;  
3 \$0.5 million related to information technology, including the *Customer*  
4 *Information System* and security information and event management; and  
5 \$0.4 million associated with regulatory proceedings.  
6
- 7 ii) The increase for 2023 forecast of approximately \$1.0 million from the 2023 test  
8 year is primarily due to higher costs associated with the Company's regulatory  
9 proceedings; consultant costs related to information technology and asset  
10 management; and audit fees associated with the implementation of the Company's  
11 *Customer Information System*. The increase was partially offset by lower fees  
12 associated with anticipated Hydro regulatory proceedings, which were delayed.  
13
- 14 iii) The decrease in the 2025 forecast of approximately \$0.4 million from the 2024  
15 forecast is primarily due to lower fees associated with the Company's regulatory  
16 proceedings and lower IFRS conversion costs in 2025, partially offset by an  
17 increase associated with anticipated Hydro regulatory proceedings.  
18
- 19 iv) The decrease in the 2026 forecast of approximately \$0.1 million from the 2025  
20 forecast is primarily due to lower IFRS conversion costs in 2026, partially offset  
21 by higher fees associated with the Company's regulatory proceedings.  
22
- 23 g) Vegetation management costs for 2023 forecast increased by \$818,000 from the 2023 test  
24 year reflecting additional distribution and transmission vegetation management activity  
25 and inflationary increases.<sup>13</sup> The increase in the 2025 forecast of \$118,000 from the 2023  
26 forecast is due to inflationary increases.  
27
- 28 h) Computing equipment and software cost increases over the 2023 to 2026 period reflect  
29 forecast licensing and support costs for third-party hardware and software solutions,  
30 including cybersecurity. These licensing and support costs relate to both the introduction  
31 of new technology and the replacement of existing technology.  
32
- 33 See the response to Request for Information PUB-NP-022, part a) for a breakdown of  
34 forecast computing equipment and software costs for 2024 through 2026, as well as  
35 explanations for the increases.

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<sup>13</sup> Vegetation management work can vary from year to year primarily as a result of planned maintenance activities and weather conditions. Any critical work identified during inspections is prioritized to be completed based on the overall risk to safety and reliability.