

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

3 **Q. Volume 1, Section 2, page 2-33, lines 2-3. What specific actions is Newfoundland**
4 **Power taking to reduce Operating Costs – General.**
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6 A. General costs include information systems, financial services, corporate and employee
7 services and insurance costs. The total costs in the general category are made up of
8 approximately 50% in labour costs and 50% in non-labour costs.
9

10 The following analyzes general costs separately for labour and non-labour costs,
11 including the actions Newfoundland Power is taking to keep these costs as low as
12 reasonably possible.
13

14 ***Labour Costs***
15

16 Table 1 provides labour costs associated with the general category by function from 2022
17 to 2026 forecast.

**Table 1:
General Category by Function – Labour Costs
2022 to 2026 Forecast
(\$000s)**

	2022	2023F	2024F	2025F	2026F
Information Systems	2,656	2,456	2,475	2,574	2,685
Financial Services	1,530	1,727	1,597	1,672	1,751
Corporate and Employee Services	9,995	9,371	10,223	10,512	10,897
Total	14,181	13,554	14,294	14,758	15,334

18 General operating labour costs are forecast to increase by \$1.2 million from 2022 to
19 2026, or approximately \$0.3 million per year. The labour costs in each function are
20 forecast to increase at a rate lower than labour inflation.¹
21

22 Specific actions that Newfoundland Power has taken to manage its labour costs in the
23 general category functions are:
24

- 25 (i) In the information systems function, the Company implemented a modern
26 technology management solution in 2022 which created operating efficiencies for
27 staff responsible for completing technology inquiries and requests.²

¹ If information systems labour costs changed only by labour inflation from 2022, 2026 *pro forma* labour costs would be an estimated \$3.1 million. If financial services labour costs changed only by labour inflation from 2022, 2026 *pro forma* labour costs would be an estimated \$1.8 million. If corporate and employee services labour costs changed only by labour inflation from 2022, 2026 *pro forma* labour costs would be an estimated \$11.6 million.

² Staff in the information systems function receive approximately 8,000 technology requests per year.

- 1 (ii) In the financial services function, Newfoundland Power upgraded its financial
2 management system to automate processes for recording financial transactions.
3 The initiative streamlined the approval process and eliminated the manual entry of
4 data by staff in that function.³
5
- 6 (iii) In the corporate and employee services function, the Company upgraded its
7 Human Resources Management system to improve functionality associated with
8 payroll and recruitment work requirements.⁴
9
- 10 (iv) Newfoundland Power will engage consultants to complete work requirements that
11 are either temporary or have expertise that would be cost-prohibitive to hire
12 full-time staff to complete. These requirements, related costs and actions taken to
13 minimize these costs are analyzed in the non-labour costs section.
14

15 *Non-Labour Costs*

16
17 Table 2 provides non-labour costs associated with the general category by function from
18 2022 to 2026 forecast.

Table 2:
General Category by Function – Non-Labour Costs
2022 to 2026 Forecast
(\$000s)

	2022	2023F	2024F	2025F	2026F
Information Systems	3,774	4,808	5,698	6,151	6,465
Financial Services	247	401	1,583	1,410	917
Corporate and Employee Services	7,855	8,393	8,633	8,498	9,006
Insurance	2,214	2,428	2,621	2,773	2,932
Total	14,090	16,030	18,535	18,832	19,320

19 General operating non-labour costs are forecast to increase by \$5.2 million from 2022 to
20 2026, or approximately \$1.3 million per year. The cost increases in the information
21 systems and insurance functions are anticipated to be sustained over the long-term, while
22 the cost increases in the financial and corporate and employee services functions are
23 more temporary in nature.
24

25 About half of the increase in general non-labour costs over the 2022 to 2026 forecast
26 period relates to the information services function. As more fully outlined in the response
27 to Request for Information PUB-NP-022, part a), increases in information systems

³ Staff in the financial services function process approximately 960 journal entries each year.

⁴ This has enabled the Company to efficiently manage additional recruitment efforts in recent years.

1 non-labour costs primarily relate to licensing and support costs for third-party hardware
2 and software solutions.⁵

3
4 Specific actions Newfoundland Power takes to manage its information systems
5 non-labour costs are:

- 6
7 (i) Newfoundland Power uses a competitive tendering process when procuring and
8 implementing software applications. The Company will also seek to secure fixed
9 licensing and support costs over a period of time.⁶ Further, Newfoundland Power
10 engages license advisory services, as appropriate, to assist with its negotiation
11 strategies and to ensure management of these costs are consistent with good utility
12 practice.
- 13
14 (ii) In 2024, the Company will be implementing a software asset management module
15 which automatically analyzes the requirements of software licenses and usage
16 data, and provides reports to ensure compliance with requirements and right size
17 contracts to meet business requirements. Employees will no longer be required to
18 manually complete the reviews, improving operating efficiency.⁷
- 19
20 (iii) Newfoundland Power also consolidates work solutions where possible to
21 minimize licensing and support costs. For example, in 2023 the Company
22 replaced WebEx as its virtual meeting solution with Microsoft Teams.
23 Newfoundland Power could access Microsoft Teams as part of its existing
24 Microsoft Enterprise Agreement with no added annual cost, saving approximately
25 \$75,000 in annual user fees.
- 26
27 (iv) The Company will also engage external expertise in areas where it is reasonable
28 to do so rather than to hire full-time staff to complete that work requirement. For
29 example, Newfoundland Power has engaged a third party for its security
30 information and event management to provide 24/7 monitoring of its systems to
31 reduce the Company's cybersecurity risks.⁸

32
33 Insurance costs are forecast to increase by \$0.7 million over the 2022 to 2026 forecast.
34 This reflects market conditions associated with insurance coverage.⁹ Newfoundland
35 Power engages professional risk management advice to ensure its insurance coverage is
36 appropriate and its insurance rates are as low as possible. In its most recent assessment,

⁵ Of the \$2.7 million increase in the information systems function from 2022 to 2026 forecast, \$2.1 million relates to higher licensing and support costs.

⁶ For example, for the Company's new Customer Information System, Newfoundland Power entered into a four-year support agreement with Oracle to minimize costs and maintain stability of those costs.

⁷ The initiative is anticipated to reduce operating costs by approximately \$78,000 in 2025 and \$35,000 in 2026.

⁸ A cybersecurity breach could have significant impacts on both the Company and its customers. For example, IBM Security provided in a 2023 report that the average cost of a data breach reached an all-time high in 2023 of US\$4.45 million.

⁹ The increase is mostly due to higher property insurance premiums, foreign exchange fluctuation, as well as rate pressure for casualty and cyber liability. Over the past three years, actual annual premium increases averaged approximately 10%.

1 the Company's insurance broker, Aon Reed Stenhouse Inc., confirmed that the rates and
2 coverage for the 2023-2024 term are the best available given the current market
3 conditions.¹⁰
4

5 As more fully outlined in the response to Request for Information PUB-NP-022, part c),
6 increases financial services non-labour costs relate to the implementation of International
7 Financial Reporting Standards ("IFRS"), as required by its securities regulator.¹¹ As such,
8 the cost increases over the forecast period are largely out of the Company's control. The
9 majority of the cost increases in the financial services function, however, are temporary.

10
11 Newfoundland Power plans to minimize these costs by engaging consultants with
12 experience in the conversion to IFRS. This will limit the impact the implementation of a
13 new accounting standard will have on the Company's day-to-day operations to the extent
14 possible, thereby minimizing internal labour costs.

15
16 Non-labour costs in the corporate and employee services function are forecast to increase
17 by \$1.2 million over the 2022 to 2026 forecast period. This is primarily the result of
18 increased regulatory activity anticipated over that timeframe.
19

20 There were no large regulatory proceedings in 2022. Over the 2024 to 2026 period, there
21 are anticipated increased work requirements associated with: (i) the Company's current
22 general rate application ("GRA"); (ii) Hydro's upcoming GRA;¹² (iii) Hydro's *Reliability*
23 *and Resource Adequacy Study Review* ("RRA Review");¹³ and (iv) Newfoundland
24 Power's next GRA.¹⁴
25

26 External resources allow Newfoundland Power to file the necessary information
27 associated with its regulatory proceedings and intervene on behalf of its customers in
28 Hydro matters that impact the costs and reliability of the provincial electricity system.
29 Newfoundland Power minimizes these costs by using external consultants and experts to
30 meet the specific temporary work requirements associated these regulatory proceedings.¹⁵

¹⁰ See Attachment A to the response to Request for information NLH-NP-021.

¹¹ The Company has taken several steps to avoid the requirement to convert to IFRS, including requesting a permanent exemption from the Ontario Securities Commission ("OSC") to continue reporting in United States generally accepted accounting principles, and applying to the OSC to cease to be a reporting issuer. Neither application was approved.

¹² Hydro expects to file its next GRA in 2025. See Hydro's December 15, 2023 letter *Re: Quarterly Update – Items Impacting the Delay of Hydro's Next General Rate Application*.

¹³ Hydro is expected to file various reports associated with this proceeding in 2024. See, for example, the Board's January 11, 2024 letter *Re: Newfoundland and Labrador Hydro – Reliability and Resource Adequacy Study Review Planned Reports, Studies and Analyses – Further Comments and Directions*. The Company therefore anticipates an increased level of regulatory activity over the forecast period related to this proceeding.

¹⁴ Newfoundland Power anticipates engaging experts for its next GRA in 2026. This includes the preparation of its next depreciation study. The Company has also engaged expertise related to Automated Metering Infrastructure to assist in Newfoundland Power's business case assessment of that technology over the forecast period.

¹⁵ For example, as part of its intervention in Hydro's RRA Review, the Company has engaged power plant and transmission system engineering and design expertise rather than employing that expertise on a full-time basis.