PUB Order No. 36 (1998-99)
per NP 1998 hearing
Info # 019

has presented no evidence to show why the company needs to move to higher specifications for 1999. The company states that they are moving to the higher specification for 1999 because of their movement to latest version operating systems and application software. Information presented by the consumer advocate also suggested that significant cost savings could be achieved if the company were to open its options to purchase equipment from companies other than IBM. The consumer advocate also questioned whether the company has an information strategy in place and whether the company is able to demonstrate the savings and efficiencies gained through this technology expenditure.

In defense of the selection of IBM as the sole supplier of personal computers and laptops, the company filed consent exhibit KWS-25, which documented the results of the company's call for proposals.

Discount of 4% vs 10%

P.U. 17 (1996-1997) ordered that the company's 1997 capital budget be reduced by 4% to compensate for traditional capital over-budgeting. Consistent with this order, forecast capital expenditures for 1999 have also been reduced by 4%. The Board's financial consultants have reviewed the variances in the capital budgets for the period 1992 to 1997 and conclude that the average over-budgeting for all expenditure categories has ranged from 3.75% (1993) to 19.04% in 1995, to give a total average variance of 10.10% (Grant Thornton report, p. 20). If a 10% adjustment were applied to the 1999 forecast capital expenditures, instead of 4%, depreciation expenses would be reduced further by $60,700.

The company's position is that the Board should stay with the 4% reduction, and not adopt the 10% as suggested by the Board's financial consultants. Mr. Evans testified that the company's capital budgeting has become more precise in the last couple of years, primarily due to increased use of personal computers and closer budget monitoring.

The Board approves the capital budget in the amount of $36,773,000 for 1999. The proposed 1999 construction projects, capital purchases in excess of $50,000 and lease over $5,000 are also approved. The Board accepts the position of the company that a 4% discount is reasonable and will not require any further discounting of the capital budget.

The Board also notes the increasing level of expenditures in the area of information systems and requires that NP provide the Board with a report on the company's information technology strategy for the period 1999-2002. This report should also identify the planned expenditures in this area, the expected productivity gains, and the cost savings and any other benefits to the company resulting from these expenditures. The report should be submitted to the Board with the year 2000 capital budget.

RATE BASE

P.U. 7 (1996-97) fixed and determined the rate base for the years ending December 31, 1991 to December 31, 1995 inclusive. It also accepted the forecasted average rate base for the year ending December 31, 1996 at $472,631,000, for the year ending December 31, 1997 at $476,103,000 and as adjusted in P.U. 7 (1996-97). This order will fix and determine the rate base for 1996 and 1997 and approve the forecast rate base for 1998 and 1999.