

- 1    Q.    Provide a copy of the submission from NLH's union(s) in 2003 proposing  
2           where \$2.5 million in operating costs could be eliminated.  
3  
4  
5    A.    Please see attached.

**I.B.E.W. Local 1615  
Initial Recommendation  
On Cost Saving Measures  
To  
Newfoundland & Labrador Hydro Corporation**

April 23, 2003

I.B.E.W. Local 1615  
230 Park Avenue  
Mt. Pearl, NL  
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Mr. William Wells  
President and CEO  
Newfoundland & Labrador Hydro Corporation  
P.O. Box 12400  
St. John's, Newfoundland  
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Dear Sir:-

*As we sit with Senior Hydro officials today, we anticipate a positive approach of working together on cost-saving measures, within Hydro, instead of job cuts. The I.B.E.W. would like to raise several initiatives, that we believe must be put in place in order that the process be one of openness and thoroughness.*

*Firstly, that after this initial and hopefully open meeting, that a third party (Facilitator) be appointed to facilitate the process.*

*Secondly, a short time frame be set so that agreed upon cost saving measures be implemented in the earliest possible time frame and*

*Thirdly, the facilitator is given the authority to direct either party to provide pertinent economic information it may have on the issues raised.*

*With the foregoing said, I.B.E.W. Local 1615 after discussions with its membership and reviewing the P.U.B. Report, Order No. P.U. 7 (2002-2003) June 7, 2002 before Chair and C.E.O. Mr. Robert Noseworthy, a number of observations and suggestions are in order.*

*These observations, and suggestions on cost saving measures are, in summary, form?? and will be expanded upon verbally during our initial meeting and in more written detail as we move forward in this joint process.*

*In reviewing the P.U.B. Report a number of issues are referenced to assist in the approach to address efficiencies in the test year to meet controllable costs in achieving revenue requirements to attain the reduction of 2,000,000 to meet the "productivity allowance" as outlined in the P.U.B. document.*

*In the report the Board references a number of items in which Hydro may or may not use to attain the required "productivity allowance" revenue requirement. (I.B.E.W. Local*

*1615 considers the P.U.B. direction on the productivity allowance as a recommended goal, not a means to an end at all costs).*

The Board has itemized certain costs of which Hydro may use to achieve the "productivity allowance" target. (I.B.E.W. will not list all cost items in the report but itemize several, as we all are aware of the P.U.B. contents).

**Item 5 (other costs):**

Certain other costs (insurance, transportation, office supplies, building rentals and maintenance, equipment rentals and loss on disposal) as proposed by NLH for the 2002 test year are accepted subject to any reduction by NLH resulting from the productivity allowance set by the Board.

**i) Certain Other Costs Consolidated**

|                                |             |
|--------------------------------|-------------|
| Insurance                      | \$977,000   |
| Transportation                 | 1,923,000   |
| Office supplies                | 1,939,000   |
| Building rentals & maintenance | 626,000     |
| Equipment rentals              | 1,558,000   |
| Loss on disposal               | 890,000     |
| Total                          | \$7,913,000 |

The major cost items under revenue requirement were explored extensively by the Board and will be examined and decided separately. Certain other cost items listed below received little or no attention by interveners and are being dealt with as a group.

**ii) Salaries and Fringe Benefits**

|                          |              |
|--------------------------|--------------|
| Salaries Permanent       | \$44,876,638 |
| Salaries Temporary       | 5,293,516    |
| Overtime                 | 2,615,424    |
| Directors Fees           | 62,000       |
| Fringe Benefits          | 6,359,483    |
| Labrador Travel Benefits | 106,180      |
| Group Insurance          | 1,680,500    |
| Employee Future Benefits | 2,432,570    |
| Less Vacancy Credit      | (1,000,000)  |
| Total Salary Cost        | \$62,426,311 |

The Board finds that any reduction in salary costs to be incorporated in the 2002 test year is best managed by NLH within the scope of the vacancy credit adjustment and in the application of the productivity allowance set by the Board.

- iii) **System Equipment Maintenance**  
System Equipment maintenance costs consist primarily of the costs associated with the Holyrood thermal plant, diesel generation plant operations and property maintenance. The revised revenue requirement for system equipment maintenance for 2002 is \$16,763,000.

System equipment maintenance costs as proposed by NLH for the 2002 test year are accepted subject to any reduction by NLH resulting from the productivity allowance set by the Board.

- iv) **Professional Services**  
Professional service costs in the test year total \$4,340,000 and consist primarily of consulting fees involving legal, audit, software technology and maintenance as well as annual Board assessments. This amount was later revised to \$5,340,000 to reflect a decision by NLH to defer a portion of the hearing related costs into the test year.

Professional services costs as proposed by NLH for the 2002 test year are accepted subject to any reduction by NLH resulting from the productivity allowance set by the Board.

- v) **Travel**  
Travel costs as proposed by NLH for the 2002 test year is accepted subject to a reduction by NLH resulting from the productivity allowance set by the Board. NLH will be directed to exclude spousal travel costs from regulated expenses. NLH will also be required to file its policies and procedures for employee travel with the Board.

|   |             |
|---|-------------|
| <b>Miscellaneous Costs</b>                            |             |
| Staff Training  | \$841,000   |
| Donations/Corporate Promotion                         | 193,000     |
| Sundry costs  | 84,000      |
| Diesel Fuel Hydro                                     | 94,000      |
| Demand side management                                | 45,000      |
| Employee expenses                                     | 340,000     |
| Collection fees                                       | 25,000      |
| Bad debt expense                                      | 300,000     |
| Inventory gain/loss                                   | 594,000     |
| Municipal and payroll tax                             | 2,075,000   |
|   | 4,591,000   |
| Less: Non-regulated donations and Corporate promotion | ( 133,000)  |
| Total   | \$4,458,000 |

**Miscellaneous costs as proposed by NLH for the 2002 test year, including inventory gain/loss, are accepted subject to any reduction by NLH resulting from the productivity allowance set by the Board.**

The above list gave Hydro a varied opportunity to cut costs in several major areas but it is the I.B.E.W.'s view that Hydro chose to take the route of slashing the salaries of temporary employees (\$5,293,516) in half thereby eliminating the equivalent of some 60 full time equivalent positions.

The union realizes that by eliminating these maintenance support workers, in 2003, and the same equivalent in 2004, will mean a major reduction in the system maintenance work that is normally done.

We see Hydro meeting cost savings in two areas – on temporary salaries and in maintenance cost.

We have and will continue to raise the issue of system reliability and safety because of these cuts which we believe, as experts in the Utility Industry know, will mean substantially higher costs to bring the system up to par in the future and strongly feel that employees working on poorly maintained electrical equipment will mean putting these employees at unnecessary and possibly fatal risks.

We do not make these remarks lightly as we have had two fatalities and several near misses in recent years and strongly believe maintaining system integrity is a must not only for employees but to the electrical consumer as well.

Without being too verbose let me touch on a number of issues that the I.B.E.W. would like to discuss:

1. **Reduction in Staff** - How can Hydro take out 60 full time equivalents in 2003 and another 60 full time equivalents in 2004 yet see no reduction in Supervisory staff? Explanation required.
2. **Contracting Out** – the union is still waiting for a breakdown on the Labour costs from contracting out information dated Company letter March 6, 2003. We are also seeking other contract work that was not outlined on said letter (i.e. work being contracted to Toromount Cat and Black and Mac) The I.B.E.W. has shown it can compete with the contractor's and examples will be given. With proper work scheduling, I.B.E.W. believes that by doing the majority of contracting out work ourselves can attain a substantial dollar savings. Although we are awaiting your labour cost breakdowns, we estimate savings somewhere in the range of \$500,000 - \$1,000,000.
3. **Consultants** – We are seeking Hydro's predicted costs for 2003 and 2004 on Consultant's fees. The 2002 cost were in the \$5,000,000 range. The I.B.E.W. believes that using in-house expertise could greatly reduce the cost of consulting.

We wait to see your consultation costs and how those costs compare to the Utility Industry.

4. **Vehicles** – The I.B.E.W. believes that the number of vehicles, in the Hydro system, is much greater than required. We are recommending that a minimum of 15 vehicles be removed from the system. We estimate vehicle costs, insurance, gas; maintenance savings will be in the range of \$600,000 per year. Policies should be put in place on vehicle usage during hours of work and after. We require discussion on this point and will provide many examples of misuse in taking this action will reduce vehicle costs even further.
5. **Travel Costs** – We are seeking a breakdown on travel costs for 2002 and expected cost for 2003 and 2004. The I.B.E.W. questions the need for the many committees' that are traveling on a continuing basis. The use of conference calling, emailing would reduce significantly the cost of hotels, per diems, vehicle rentals, air travel etc. The I.B.E.W. believes savings of \$300,000 – 400,000. can be attained by reducing travel.
6. **Maintenance Planning** – We believe with improved planning and scheduling costs in the following areas can be attained by eliminating duplication of supervision, reducing costs of shipping and receiving, reducing overtime costs, streamlining work order system processes, reviewing the current RCM Maintenance processes (which has been thrown out by other utilities) would improve work processes and attain an estimated savings of \$500,000.
7. **Environmental Management System – ISO 14000** – We are seeking the cost of such a Cadillac system and how this particular system, more so than a less expensive one, will benefit the ratepayers.
8. **Early Retirement Package** – We believe that, by NLH following suit with other utilities should put in place an early retirement package. It is the I.B.E.W.'s estimate that at least 30 positions, at the cost of 2.5 million dollars, would be saved. This early retirement arrangement would be outside of the Public Service Pension Plan and would be a one-shot deal between NLH and reduce dividends to Government.
9. **J.D. Edwards System** – This system is driving the company instead of the company driving it. All management staff is fully aware of this problem. Conduct a survey to see how many people know the chain of command and who is responsible to get the simplest of jobs performed. What is the true benefit of having all the Business Unit Manager Specialists, Planning Supervisors and Planners in place? What is the cost of this system?
10. **Snow machines & ATV's** - The I.B.E.W. advises better utilization of snow machines and ATV's. I.B.E.W. will provide examples of misuse and waste. Estimated savings \$100,000.
11. **Palm Pilots & Cell Phones** - NLH should review its overuse of Palm Pilots and cell phones. I.B.E.W. will give examples and believes the estimated savings to be in the range of \$30,000 - \$40,000.
12. **Computer change out** – computer leasing and software costs – The I.B.E.W. is seeking costs in this area. We will give examples of unnecessary change out.
13. **Intranet** – We are seeking the cost of bringing in the new Intranet, why it is needed vis a vis the current Lotus Notes System, electronic boards and email

system. The I.B.E.W. believes this is an unnecessary cost and would like to know the cost of purchase and implementation.

14. **Test Equipment – Calibration & Maintenance** – The I.B.E.W. believes such work can be done in-house and could reflect a savings of \$10,000 – 15,000 per year.
15. **Rental of Office Space – St. Anthony** – The office should be relocated to the vacant warehouse. Estimated cost \$75,000 per year. Hydro Place flooring levels should be re-arranged to allow for rental space.
16. **Donations/Corporate Promotion** – such as the Road Report, several magazines going to employees, donations to social clubs, sports etc. Savings to be had in the range of \$150,000.
17. **Inventory Items and Purchase of Material** – Certain items can only be purchased under blanket orders. A discussion should be had on how this has increased cost for certain items and how reduced inventory items can impact Customer Service.
18. **Litigation** – The I.B.E.W. is questioning how much money is paid out in litigation for the years 2002 and 2003. Will forward its comments upon receiving said information.
19. **Flame Retardant Clothing** – Supervisory Personnel – This is not required. I.B.E.W. estimates savings in the range of \$30,000 – 40,000 per year.
20. **Airline tickets** – Provincial Airlines provides NLH with a 47% discount. We question the need for travel on other airlines i.e. Air Labrador, and we would question why NLH employees do not circumvent the travel agency costs of \$48.00 per booking.

Without having figures for some of the above listed items, for those that we have placed figures on, we see a savings of approximately 4.665 - 5.5 million.

Although there are other areas that the I.B.E.W. believes there can be savings to, we feel for an initial meeting, these cost saving measures would be a start.

By implementing these suggested cost saving measures would allow NLH to proceed with its regular maintenance ensuring system integrity and helping to provide low cost electricity to the consumers.

Yours Truly,

Bob Clarke  
Business Manager

BC/jmck.w  
CAW-Canada Local 597

c.c. Honourable Roger Grimes – Premier – Newfoundland & Labrador  
Honourable Walter Noel – Minister of Mines & Energy