

1 Q. Provide an explanation for the year over year change in each of the following
2 expenses, by division where applicable, for 2002 and forecasts for 2003 and
3 2004 (Finance and Corporate Services evidence, Schedule II and Schedule
4 XIII; Production evidence, Schedule VI; Transmission and Rural Operations
5 evidence, Schedule V).

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7 (a) salaries and fringe benefits;
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9 (b) system equipment maintenance;
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11 (c) insurance;
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13 (d) transportation;
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15 (e) office supplies;
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17 (f) building rentals and maintenance;
18
19 (g) professional services;
20
21 (h) travel;
22
23 (i) equipment rentals;
24
25 (j) miscellaneous; and
26
27 (k) loss on disposal of fixed assets.

28

29

30 A: Explanation of major variances in expenses follow by division:

31

32 **Finance and Corporate Services - Schedule XIII**

33 (a) Salaries and Fringe Benefits

34 This group of expenses has increased by \$1,352,000 in 2003 over
35 2002 mainly due to increased Employee Future Benefits and increased

1 Corporate Group Benefits. The former is a result of higher projections from
2 actuarial estimates while the latter is a result of higher group insurance rates.
3 In addition, there are less capitalized recoveries in 2003 due to a reduced
4 internal staff involvement in the capital program. There was a 4% scaling
5 factor applied to the regular salary expense but this was more than offset by
6 an anticipated reduction in the number of positions as Hydro continues to
7 review its business processes. In 2004, a 3% scaling factor was applied to
8 regular salaries. The increase in the vacancy allowance provides for
9 anticipated future reductions. There are less capitalized recoveries for 2004
10 for the same reason as outlined above for 2003.

11
12 (b) System Equipment Maintenance

13 This group of expenses has decreased by \$50,000 in 2003 mainly due
14 to a reduction in freight costs. Freight costs in 2002 were higher than
15 anticipated but are predicted to be back to a normal level in 2003. 2004
16 costs are relatively unchanged.

17
18 (c) Insurance

19 Both 2003 and 2004 are projecting significant increases in automobile
20 liability premiums and property premiums due to a restricted insurance
21 market.

22 (g) Professional Services

23 This group of expenses is predicted to decrease by \$616,000 in 2003
24 mainly due to the consulting costs incurred in 2002 related to the business
25 process review.

1 (h) Travel

2 This group of expenses is increasing by \$136,000 in 2003 mainly
3 related to the 2003 Rate Hearing, and travel associated with the rotation of
4 apprentices. Travel costs are expected to decrease in 2004 in the absence
5 of a rate hearing and less travel projected in many departments.
6

7 (j) Miscellaneous

8 The decrease in 2003 of \$71,000 is mainly due to a reduction in bad
9 debt expenses partially offset by increased staff training costs and inventory
10 write-downs. The increase in 2004 is caused mainly by a projected increase
11 in municipal taxes and higher costs related to the HYDROWISE conservation
12 program.
13

14 (k) Loss on Disposal of Capital Assets

15 Projected losses for 2003 and 2004 are based on capital budget
16 proposals.
17

18 **Production Evidence, Schedule VI**

19 (a) Salaries and Fringe Benefits

20 The total salary and fringe benefit group increased in 2003 and 2004
21 due to a scale increase in operating salaries, and a decrease in the
22 capitalized expense salary credit. This was offset by an increase in the
23 vacancy allowance to provide for future anticipated staff reductions.
24

25 (b) System Equipment Maintenance (SEM)

26 The primary reason for the increase in SEM in 2003 over 2002 is the
27 major turbine overhaul of Unit No. 1 at Holyrood. As well, there is a forecast
28 increase in 2003 of chemical costs for various systems at Holyrood. These

1 items are purchased infrequently and can last between eight and 10 years
2 depending on production levels.
3

4 Although there is no major overhaul scheduled during 2004, several
5 significant operating projects are necessary at Holyrood, including Heat
6 Tracing Refurbishment (\$203,000), Fuel Oil Tank Cleaning and Repair
7 (\$665,000), Asbestos Abatement Program (\$175,000), Roof Replacement
8 (\$215,000) and Fire Protection Purging Valves Relocation (\$200,000).
9

10 In Hydro Generation there are projects costing approximately
11 \$245,000 beyond the routine SEM cost.
12

13 (g) Professional Services

14 Professional services category has decreased by approximately
15 \$200,000 per year since 2002. This reflects various changes across most
16 departments of the Production Division.
17

18 (i) Equipment Rentals

19 Equipment rental increases reflect increases in the cost of leasing
20 communication circuits, Internet connection costs and some licensing costs.
21

22 (j) Miscellaneous

23 This primarily reflects a reduction in the fuel cost for the Ebbegunbaeg
24 water control structure due to its interconnection to the grid.
25

Transmission and Rural Operations Schedule V

(a) The salaries and fringe benefits expense is expected to decrease in 2003 and 2004 primarily due to the workforce realignment arising from business process review, RCM and reductions in temporary staffing. Additionally, capitalized expenses have declined due to reduced internal staff involvement in the capital program

(b) System equipment maintenance expenses are expected to decrease in 2003 and 2004 due to a change in maintenance philosophy with the adoption of RCM and a decrease in the number of operating projects.

(d) Transportation expenses in 2004 are forecast higher due to a decrease in the utilization of vehicles on capital projects.

(g) Professional services are forecast to be higher in 2003 due to the requirement for specialized external auditors under the ISO 14001 Environmental Management System and for a consultant to assess and report on reliability of transmission lines serving the GNP as required by the Board. Reduction in 2004 is due to completion of GNP reliability study in 2003.

(j) There was an increase in employee expenses for the provision of newly required personal protective equipment.