

1 Q At p. 2 of the Regulated Activities: Evidence section, it states *that “From*  
2 *2002 to 2007, Hydro’s total operating costs for the core regulated business*  
3 *have increased 7%, compared to inflation for the same period of 12%. . .*  
4 *when the amortization of deferred regulatory and extraordinary maintenance*  
5 *costs are excluded, the increase over the period is less than 5%. The*  
6 *Company’s drive to maintain operating costs below inflation brings value to*  
7 *all electricity consumers in the Province.”*

8 Please explain:  
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- 10 a. how Hydro’s total operating costs increases for the core regulated  
11 business for the period 2002 to 2007 compares to the immediately  
12 preceding corresponding period up to 2002;  
13 b. whether Hydro had any specific cost-cutting targets in place in respect  
14 of the period 2002 to 2007;  
15 c. whether Hydro has undertaken a review either internally or by external  
16 advisors over the period 2002 to the present with a specific focus on  
17 identifying cost cutting opportunities.  
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- 20 A. a. Inflation over the period 1992-2002 was 16.3%, compared to the  
21 increase in operating expenses of 18.2%. For the period 1997-2002,  
22 inflation was 7.8% compared to the increase in operating expenses of  
23 24.2%. Comparable total operating costs for the period 1992-2002  
24 are as follows:

1		<u>(\$ Thousands)</u>
2	1992	77,186
3	1993	78,271
4	1994	78,871
5	1995	75,753
6	1996	77,909
7	1997	73,461 <sup>1</sup>
8	1998	79,689
9	1999	84,228
10	2000	90,958
11	2001	88,870
12	2002	91,228

<sup>1</sup> Results for 1997 were impacted by an abnormal vacancy rate of 8.8%.  
Please refer also to CA 83 NLH.

Prior to 2001, Hydro did not calculate an allocation of costs for non-regulated sales. For purposes of making the requested comparison, Hydro has included the allocation to non-regulated sales in the 2001 and 2002 operating cost numbers (\$2,747 and \$2,914 respectively).

- b. Hydro's targets pertaining to cost control are generally reflected in the approved operating and capital budgets.
- c. Hydro continues to focus on controlling costs through ongoing attention to budgetary scrutiny and control. For examples of specific measures taken in this regard, please refer to CA 118 NLH and CA 122 NLH.