

1 Q. Reference p. 22 of the Regulated Activities: Evidence and reference
2 Schedule I to Evidence of J. R. Haynes. Please explain why costs for
3 Systems Operations and Customer Service were \$4,012,000 in 2003 but
4 increased to \$4,507,000 and \$4,670,000 in 2004 and 2005 respectively.
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7 A. The System Operations and Customer Service Department has three
8 business units: System Operations, Customer Services and the Meter Shop.
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10 Prior to 2005, general labour costs for the Customer Services business unit
11 were managed in a business unit reported in Schedule 1 under the Finance
12 Division. Similarly for the Meter Shop business unit, the general labour costs
13 were recorded in the Engineering Services Division. These labour costs
14 included wages and benefits, travel, and other employee expenses. Much of
15 these costs were transferred into the Customer Services and Meter Shop
16 business units when staff charged time to work related to these business
17 units. However, a portion remained in the labour business units and would be
18 included in the Finance and Engineering Services lines in Schedule 1 and
19 therefore affects the year over year comparisons.
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21 The following details the major contributors to the year over year variances:
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23 **2003 to 2004 Variance**

24 The major areas contributing to the \$495,000 increase between 2003 and
25 2004 were as follows:

- 26 • A \$212,000 increase in transferred in salaries.
- 27 • A \$141,000 increase in Energy Management (Energy
28 Conservation/Demand Side Management) expenses. This increase

1 was due primarily to the 2004 program to provide compact fluorescent
2 light bulbs (CFL) to isolated diesel system domestic customers.

- 3 • A \$126,000 increase in Bad Debt expense due to the following:
 - 4 ○ The closure of Hydro's collection agency service provider, which
 - 5 resulted in the write down of a large amount of uncollectible
 - 6 debt;
 - 7 ○ An increase in the number of bankruptcies; the disconnection of
 - 8 a large account for non-payment with a subsequent write down
 - 9 of a portion of the outstanding balance; and
 - 10 ○ An increase in bad debts associated with customers in
 - 11 Labrador.
- 12 • An \$84,000 increase in System Operations wage related expenses
- 13 due to the addition of one engineering position coupled with salary
- 14 adjustments for other staff.
- 15 • The above increases were offset by various decreases in other
- 16 categories of expenses. The most significant being a \$57,000
- 17 reduction in professional services due to:
 - 18 ○ Work completed in 2003 related to the Multi-Channel
 - 19 Application Service (MCAS), an Interactive Voice Response
 - 20 (IVR) and website combination system used to provide
 - 21 information to customers electronically and to manage customer
 - 22 calls; and
 - 23 ○ Work completed in 2003 related to a review of hydrology
 - 24 records for the 2003 GRA.

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26 **2004 to 2005 Variance**

27 The increase of \$163,000 from 2004 to 2005 is due to the following:

- The change in treatment of labour expenses in the business units such that the Meter Shop and Customer Services business units recorded in total, an additional \$129,000 in the wages category.
- A \$20,000 increase in professional services to complete additional work on hydraulic production forecasting.
- A \$47,000 increase in vehicle allowances, a labour related expense affected by the change in the accounting treatment of labour expenses. This cost was previously in the Finance Division.
- A \$36,000 increase in Bad Debt expense, associated with an increase in referrals to a collection agency and an increase in disconnected accounts for non-payment.
- The above noted increases were offset by a \$130,000 reduction in Energy Management due primarily to the large CFL expenditure in 2004.
- There were various additional expenses that were up or down by less significant amounts resulting in the remaining difference between 2004 and 2005.