

NEWFOUNDLAND POWER
CORPORATE ACCOUNTING DEPARTMENT'S
1995 BUDGET COMPARISON OF GEC ALLOCATION
FULL COST VS. INCREMENTAL METHOD

Company Account	Gross Cost	Full-cost Allocation	Incremental Allocation	Explanation, see Schedule "A" Page No.
197 GEC Direct Charges		1,225	556	2 - 3
<u>Construction Activities</u>				
520 Operating Supervisn & Misc.	4,277	1,849	416	4 - 6
525 Tools, Equipment & Clothing	846	423	326	7 - 8
526 Linesmen's Rubber Goods	68	34	26	"
565 Free Issues	324	227	123	"
<u>Non-Construction Activities</u>				
612 Accounting	1,066	362	107	9
617 Printing & Stationery	154	26	15	"
628 Corporate Effectiveness	217	78	-	"
630 MIS Supervision	161	80	-	10
631 Computer Operations	2,947	437	-	"
632 Systems Dvpt & Support	778	233	-	"
641 Personal Illness	986	355	236	"
643 Employee Welfare	104	37	25	"
644 Employee Relations	27	10	7	"
645 Safety Meetings	412	148	99	"
646 Training & Education	1,264	455	303	"
647 Apprentice Training	13	5	3	"
649 Coffee Supplies	28	10	7	"
64A HR Planning & Admin	554	174	55	11
64B HR Services	919	331	92	"
650 Administration	3,684	266	-	"
653 Internal Audit	282	85	-	"
655 Misc Admin Costs	1,707	19	-	"
670 Building Rental	101	20	-	"
671 Building Operation	776	144	-	"
672 Building Repairs	114	23	-	"
673 Grounds Maintenance	143	29	-	"
674 Snow Clearing	280	56	-	"
676 Warehouse Operation	98	18	-	"
677 Warehouse Repairs	44	9	-	"
6E1 Pension Plan	7,283	<u>2,622</u>	<u>395</u>	12
		<u>9,790</u>	<u>2,786</u>	

DIRECT CHARGES TO GEC BY TIMESHEET EMPLOYEES (see Explanatory Notes)

Basis:

The 1995 budget for 197xx, direct charges to GEC by timesheet employees, is \$1,225,000, made up of Labour \$1,067,000 and Non-labour \$158,000.

Below are listed all larger (over \$10,000) timesheet labour charges to 197xx in 1994, totalling \$743,000. Of this, the relevant Managers have determined that \$337,000 (45.4%) would not be incurred if there were no capital program.

Therefore, assuming the same percentages apply in 1995 as in 1994, 45.4% of \$1,225,000 = \$556,000 - would be treated as Capital.

	\$000s in 1994 to 197xx (> \$10,000)	Needed regardless of capital construction	
		Yes	No
Power Systems Development			
Civil Engineer	40	Y 40	
Electrical Engineer	30	Y 30	
Eng. Technician	16	N	16
Supervisor, Transmission	43	Y 43	
Eng. Technician	28	N	28
Supt. System Planning	39	Y 39	
Planning Engineer	26	Y 26	
Planning Engineer	35	N	52
Eng. Technician	19	Y 19	
Eng. Technician	22	N	50
Supervisor, Projects	31	Y 31	
Eng. Technician	12	Y 12	
Eng. Technician	22	N	22
Eng. Technician	20	N	17
Supt. Lands	56	Y 56	
Property Negotiator	32	Y 32	
Asst. Property Negotiator	23	N	32
Surveyor	20	Y 20	
Surveyor	19	N	19
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Forward	533	348	236

DIRECT CHARGES TO GEC BY TIMESHEET EMPLOYEES

	\$000s in 1994 to 197xx (<u>> \$10,000</u>)	Needed regardless of capital construction	
		Yes	No
Forward	533	348	236
<u>Telecommunications</u>			
Manager, Telecommunications	32	Y 32	
<u>Distribution Systems & Services</u>			
Chief Draftsman	32	Y 32	
<u>St John's Region</u>			
Projects Coordinator	29	Y 29	
Eng. Technician	18	Y 18	
<u>Avalon Region</u>			
Eng. Technician	23	Y 23	
Eng. Technician	15	Y 15	
Eng. Technician	11	N	39
Eng. Technician	22	N	34
<u>Eastern Region</u>			
Eng. Technician	16	N	16
Eng. Technician	12	N	12
	743	497	337

CONSTRUCTION ACTIVITIES

52xxx Operating Supervision - Standard Distribution Employees (See Explanatory Notes)

Basis:

The 1995 Budget for 52xxx Operating Supervision is \$4,277,000, made up of Labour \$3,970,000 and Non-labour \$307,000 (8% of Labour). \$1,848,000 of this is transferred to GEC, representing 70% of Head Office costs and 45% of Regional costs (excluding 52Mxx, Cost Clerks). Below are listed all standard distribution employees currently charged to 52xxx (except 52Mxx, which does not have a component recharged to GEC).

By the incremental method, only the \$385,136 listed below, plus an assumed 8% for non-labour, a total of \$416,000 would be treated as Capital.

	<u>%going currently to 52xxx</u>	<u>Needed regardless of capital construction GEC</u>	<u>Cost, based on salary plus 12% overhead</u>
<u>Distribution Systems & Services</u>			
Departmental Stenographer	95	Yes	
Engineering Technician	100	Yes	
Supt. Dist Standards	100	No	56,871
Distribution Specialist	60	Yes	
Engineering Technician	100	No	(1)
Work Methods Specialist	100	Yes	
Supt. Dist Standards/Design	100	Yes	
Engineering Technician	100	Yes	
Director, Regional Services	25	Yes	
Coordinating Engineer, Supt Dist Systems	100	Yes	
Manager DSS	80	Yes	
Development Engineer	60	Yes	
Supt Transportation	10	Yes	
<u>St. John's Region</u>			
Manager - Regional	100	Yes	
Regional Stenographer	100	Yes	
Supt Regional Operations	100	Yes	
Projects Coordinator	100	Yes	
Supt Regional Maint	100	Yes	
Dist Planning Engineer	100	Yes	
Tech Supervisor	100	No	60,284
Supt. Regional Eng	100	Yes	
Forward			<u>117,155</u>

CONSTRUCTION ACTIVITIES

52xxx Operating Supervision - Standard Distribution Employees

	<u>% going currently to 52xxx</u>	<u>Needed regardless of capital construction GEC</u>	<u>Cost, based on salary plus 12% overhead</u>
Forward			117,155
<u>Avalon Region</u>			
Regional Manager	100	Yes	
Regional Assistant	100	Yes	
Supt. Regional Eng	100	Yes	
Supt. Regional Operations	100	Yes	
Tech Supervisor	100	Yes	
Area Stenographer	100	Yes	
<u>Eastern Region</u>			
Supt Area Operations	100	Yes	
Area Stenographer	100	Yes	
Regional Stenographer	100	Yes	
Regional Manager	100	Yes	
Tech & Maint Engineer	100	Yes	
Equpt & Maint Supvr	100	Yes	
Engineering Technician	100	No	50,470
Supt Reg Eng/Area Ops	100	Yes	
Engineering Technician	100	No	(^o)
Engineer Electrical	100	Yes	
Area Stenographer	100	Yes	
Supt Area Operations	100	Yes	
Tech & Maint Supvsr	100	No	60,287
<u>Western Region</u>			
Area Stenographer	100	Yes	
Supt Area Operations	100	Yes	
Regional Manager	100	Yes	
Cashier (Regn Steno temp)	100	Yes	
Regional Stenographer	100	Yes	
Supt Area Operations	100	Yes	
Engineering Technician	100	No	50,470
Engineering Technician	100	No	50,470
Engineering Technician	100	No	(^o)
Forward			<u>328,852</u>

CONSTRUCTION ACTIVITIES

52xxx Operating Supervision - Standard Distribution Employees

	<u>% going currently to 52xxx</u>	<u>Needed regardless of capital construction GEC</u>	<u>Cost, based on salary plus 12% overhead</u>
Forward			328,852
<u>Western Region</u>			
Tech Supervisor	100	Yes	
Supt Regional Engineering	100	Yes	
Supt Area Operations	100	Yes	
Supt Equipmt & Maint	20	Yes	
Area Stenographer	100	Yes	
<u>Energy Systems</u>			
Manager, Energy Supply	60	Yes	
Instrument Technician	80	Yes	
<u>Power Systems Department</u>			
Departmental Stenographer	100	Yes	
Manager, PSD	100	Yes	
Technical Specialist	100	No	56,284

			385,136

(1) See Explanatory Notes, p. 4

CONSTRUCTION ACTIVITIES

Tools, Equipment & Clothing, Linesmen's Rubber Goods and Free Issues (See Explanatory Notes)

Basis:

(i) Tools, Equipment & Clothing and Linesmen's Rubber Goods:

The cost of these vary very largely as a function of Regional construction crew labour. Years ago it was estimated that 50% of Regional construction labour applied to capital work and 50% to operating work, and the costs of tools, equipment & clothing and of linesmen's rubber goods were charged accordingly. Assuming that, if there were no capital work, there would be a similar reduction to zero in the cost of crews and of their equipment dedicated to capital, it seems reasonable to continue allocating these costs proportionately to capital or operating construction labour. (In this case the full-cost and incremental cost methods produce the same result.)

In the 1995 Budget, the applicable capital labour is \$6,872,000 and operating labour \$11,169,000 (see below). Costs allocated proportionately to these would be charged 38% to Capital (ie. GEC) and 62% to Operating. Of the \$846,000 Tools, Equipment & Clothing budget, \$321,000 would go to Capital and \$525,000 to Operating. Of the \$68,000 Linesmen's Rubber Goods budget, \$26,000 would go to Capital and \$42,000 to Operating.

(ii) Free Issues:

When free issues were set up some years ago, it was estimated based on the construction activity at that time that 70% of free issued stock was for capital work and 30% for operating. Since then, capital work has reduced and, it transpires, it seems that the 70%/30% allocation was faulty to begin with. Materials for capital jobs tend to be picked up by crews all at once, therefore items that on their own would be regarded as free issue are often issued over the counter by Storekeepers with other materials and charged out directly to capital jobs.

A similar 38%/62% allocation as used for Tools, Equipment & Clothing and Linesmen's Rubber Goods seems not unreasonable. The 1995 Budget for Free issues is \$324,000. Allocated this way, this would result in \$123,000 for Capital and \$201,000 for Operating.

The 1995 Capital Labour Budget in respect of Customer Services Division is:

	<u>Applicable to Capital Construction</u>
Distribution	6,463
Energy Systems	25
General Property	40
Telecommunications	3
Substations	126
Transmission	<u>809</u>
	7,466
Less: Contractors	<u>840</u>
Capital Labour applicable to construction	6,626
Adjustment for P.U.3 (1995-96)	<u>246⁽¹⁾</u>
Capital Labour applicable to construction	6,872

CONSTRUCTION ACTIVITIES

Tools, Equipment & Clothing and Linesmen's Rubber Goods

The 1995 Operating Labour Budget in respect of Customer Services Division is:

	Applicable to Operating <u>Construction</u>
Power produced	458
Miscellaneous operations	1,152
Environmental costs	188
Substations	1,306
Transmission	442
Distribution	7,154
Communications	109
Customer Accounting	-
Corp Planning & Energy Mgt	-
Employee-related costs	-
Administration & misc.	-
Property Maintenance	<u>627</u>
	11,436
Less: Contractors	<u>21</u>
Operating Labour applicable to construction	11,415
Adjustment for P.U. 3 (1995-96)	<u>(246)⁽¹⁾</u>
Operating Labour Applicable to construction operating	11,169

(1) See Explanatory Notes, p.6

NON-CONSTRUCTION ACTIVITIES

Accounting (See Explanatory Notes)

The Corporate Accounting Department is currently charged 34% to GEC, based on the fact that it deals with plant records, capital work orders, payroll (which relates partly to employees engaged in capital work), accounts payable (which relates partly to purchases in respect of capital work) and budgeting (part of which is in respect of capital projects).

Over the years much of the work associated with these activities has reduced or been streamlined, with a consequent reduction in staff through retirements or transfers to other Departments. If there were no capital work, it is unlikely that the number of employees required in the Corporate Accounting Department would reduce further for that reason alone, or at least it would do so by only a minimal amount. Plant records would still have to be kept, the payroll would still have to be prepared (in fact, due to retirees, the payroll is now larger than it ever was), and budgeting would still have to be done.

On an incremental basis, the PUB's nominal rate of 10% suggested for Printing is used for accounting as well.

Printing (See Explanatory Notes)

The 1995 Budget for Printing is \$154,000, of which 17%, or \$26,000, is recharged to GEC. This was based on an estimate as to the capital content of printing being done made some years ago.

In recent years the energies of Printing section have been increasingly devoted to work of a non-capital nature, such as bill inserts, employee communications, financial reports and other external communications - to the point where this now constitutes a major portion of the output. It is likely there would be no more than a very minimal reduction in costs if there were no capital program.

On an incremental basis, the PUB suggested a nominal rate of 10% in respect of Printing be charged to Capital.

Corporate Effectiveness

The 1995 Budget for Corporate Effectiveness is \$217,000, of which 36% or \$78,000 is recharged to GEC. The continuing search for improved methods involving work of an operating nature would still be required even if there were no capital program, therefore, on an incremental basis, it seems reasonable that no percentage of Corporate Effectiveness be charged to Capital.

NON-CONSTRUCTION ACTIVITIES

MIS Costs (See Explanatory Notes)

The 1995 Budget is: MIS Supervision \$161,000; Computer Operations \$2,947,000; and Systems Development & Support \$778,000. Rather than development, the latter cost is in fact for maintenance of systems, minor improvements and work associated with upgrades to versions of vendor-supplied software. Major new software developed or purchased is capitalized, including modifications and training required in the first instance.

Reallocations to GEC are: MIS Supervision 50%; Computer Operations 15%; and varying percentages in respect of Systems Development and Support, depending on the system involved. For instance in the case of CSS - an Accounts Receivable system regarded as being 100% operating - no percentage is charged to GEC. In the case of Fasbe, the same 34% as is reallocated to GEC in respect of Function number 61210, Accounting, is used.

No computer systems are maintained solely for the construction of capital assets. If there were no capital construction, none of the computer systems or associated maintenance could be discontinued. On an incremental basis, it seems reasonable that no percentage of MIS costs, apart from those for major new computer systems which will continue to be capitalized, be charged to Capital.

Personal Illness, Employee Welfare, Employee Relations, Safety Meetings, Training & Education, Apprentice Training and Coffee Supplies (See Explanatory Notes)

The 1995 Budget is: Personal Illness \$986,000; Employee Welfare \$104,000; Employee Relations \$27,000; Safety Meetings \$412,000; Training & Education \$1,264,000; Apprentice Training \$13,000; and Coffee Supplies \$28,000, for a total of \$2,834,000. 36% of these staff costs is reallocated to GEC, based on labour figures determined some years ago. If there were no capital program, some jobs directly involved in construction would disappear. By and large these are timesheet employees, who charge directly to either capital or operating. The proportion of capital labour as compared with operating labour has reduced over the years, and is now:

<u>1995 Budget</u>	
<u>Capital</u>	<u>Operating</u>
10,363	32,414
24%	76%

Using these updated percentages, amounts allocable to GEC would be **Personal Illness \$236,000; Employee Welfare \$25,000 & Relations \$7,000; Safety Meetings \$99,000; Training & Education \$303,000; Apprentice Training \$3,000; Coffee Supplies \$7,000.**

NON-CONSTRUCTION ACTIVITIES

Human Resources Planning & Administration and Services (See Explanatory Notes)

The 1995 Budget for the two major sections of Human Resources Department is: Planning and Administration \$554,000; and Human Resources Services \$919,000. 36%, or \$505,000 in total, is recharged to GEC.

Both the planning & administration and the services (ie. safety and training) functions would still be required even if there were no capital program. On an incremental basis, the PUB's nominal rate of 10% of Human Resources Planning and Administration and Services is charged to Capital.

Administration

The 1995 Budget for Administration is \$3,684,000, of which \$266,000 is reallocated to GEC. This represents 20% of the salaries of the Executive Group, Legal, and Administrative support staff, and 2% of other Administrative costs. All of the staff would still be required, and all of the miscellaneous costs incurred, even if there were no capital program, therefore, on an incremental basis, it seems reasonable that no percentage of Administration be charged to Capital.

Internal Audit

The 1995 Budget for Internal Audit is \$282,000, of which 30% or \$85,000 is reallocated to GEC. All of the staff would still be required even if there were no capital program, most of the Department's efforts being directed towards auditing the customer services function. On an incremental basis, it seems reasonable that no percentage of Internal Audit be charged to Capital.

Miscellaneous Administrative Costs- Annual Audit Fee

30% of the annual external audit fee, or \$19,000, is reallocated to GEC. Even if there were no capital program, it is highly unlikely that the audit fee would reduce. On an incremental basis, it seems reasonable that no percentage of the audit fee be charged to Capital.

Building Rental, Operation & Repairs, Grounds Maintenance, Snow Clearing, and Warehouse Operation & Repairs (See Explanatory Notes)

The 1995 Budget for these costs is \$1,556,000. Of this, \$299,000 is reallocated to GEC, representing 20% of Kenmount Road Building and of all Regional buildings. Even if there were no capital program, the buildings involved would still be required. On an incremental basis, it seems reasonable that no percentage of buildings costs be charged to Capital.

NON-CONSTRUCTION ACTIVITIES

Company Pension Plan (See Explanatory Notes)

The 1995 Budget in respect of the Company Pension Plan is \$7,283,000, comprised of the cost elements listed below. 36% of the total, or \$2,622,000, is reallocated to GEC. Only the present service costs and the supplemental plan would reduce if there were no capital program. It seems reasonable to allocate the \$1,645,000 total of these two cost elements in the same proportion as other employee costs - 24% to Capital and 76% to Operating. (see page 10) This would result in **\$395,000 being charged to Capital.**

Past Service Costs	4,629,000) estimated split between past &
Present Service Costs	1,200,000) present service
Supplemental Plan	445,000	
Uniformity Plan	164,000	
Pension Review	50,000	
Consultants' fees	15,000	
Early retirement scheme amortization	740,000	
Retirement allowances	<u>40,000</u>	
	<u>7,283,000</u>	

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

SUMMARY

	<u>PROPOSAL TO PUB</u>					
	<u>(Based on 1995 Budget)</u>					
	<u>Gross</u>	<u>GEC</u>	<u>GEC</u>	<u>PUB</u>	<u>NP's</u>	
		<u>(Full-</u>	<u>(Increm-</u>	<u>Order</u>	<u>Analysis</u>	
		<u>cost)</u>	<u>ental)</u>	<u>P.U.3</u>	<u>\$</u>	<u>Page</u>
197 GEC Direct Charges		1,225	404	1,007	556	2
<u>Construction Activities</u>						
520 Operating Supervisn & Misc.	4,277	1,849	305	581	416	4
525 Tools, Eqpt & Clothing	846	423	311	321	321	6
526 Linesmen's Rubber Goods	68	34	25	26	26	6
565 Free Issues	324	227	120	123	123	6
<u>Non-Construction Activities</u>						
612 Accounting	1,066	362	-	* 107	107	7
617 Printing & Stationery	154	26	-	15	15	8
628 Corporate Effectiveness	217	78	-	-	-	
63x MIS	3,886	750	-	* -	-	9
64x Personal Illness, Employee Welfare etc.	2,834	1,020	624	680	680	10
64x HR Planning, Admin & Servs	1,473	505	-	* 147	147	11
650 Administration	3,684	266	-	-	-	
653 Internal Audit	282	85	-	-	-	
655 Misc Admin Costs	1,707	19	-	-	-	
67x Building Rental, Maint. etc.	1,556	299	-	* -	-	12
6E1 Pension Plan	7,283	<u>2,622</u>	<u>362</u>	<u>362</u>	<u>** 395</u>	12
		<u>9,790</u>	<u>2,151</u>	<u>3,369</u>	<u>2,786</u>	
Increase				1,218	635	

* The Board Order was not specific, so this assumes the PUB will agree with NP's reasoning.

** Although the PUB accepted the Company's proposal, this figure is based on a capital / operating ratio that has altered slightly.

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

DIRECT CHARGES TO GEC BY TIMESHEET EMPLOYEES

P.U. 3 (1995-96), p.16

"If these staff were not required, Mr Lawrence explained the balance of their non-construction work assignments would be shared amongst other staff. Therefore, the Board is convinced the full cost of these staff persons, including benefits, shall be capitalized under the incremental program."

Also "since only labour charges greater than \$10,000 were analyzed, the Applicant increased their figure by an equal proportion for those charging less than \$10,000. This increase amounted to \$158,000. This proportion also must be equated to full positions."

The PUB's figures would revise incremental GEC from \$404,000 to \$1,007,000, as follows:

		Salary plus 12% overhead
Engineering Technicians	(9)	454,000
Assistant Property Negotiator		43,000
Surveyor		50,000
Planning Engineer (omitted from P.U. 3 (1995-96), presumably an oversight)		<u>64,000</u>
		<u>611,000</u>
Proportionately increased for employees charging less than \$10,000 a year into GEC:		
	1,067,000/743,000 x 611,000	877,000
Proportionately increased for Non-Labour Costs:		
	1,225,000/1,067,000 x 877,000	\$ <u>1,007,000</u>

NP's Analysis

As P.U.3 (1995-96) Order rightly reasons, if you need someone on staff you need all of him or her and not just a portion. However the employees listed currently charge much of their time directly to capital work orders. This would not change under an incremental system. Therefore NP feels the PUB's suggestion that 100% of the incremental staff's costs would be attributable to GEC is incorrect since it would, in effect, provide for portions of salaries twice.

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

DIRECT CHARGES TO GEC BY TIMESHEET EMPLOYEES (cont.)

CHARGED IN 1994	CAPITAL		OPERATING & JOINT USE (exc. Class 64) *	Additional Incremental GEC	
	GEC	Work Orders			Total
<u>Technicians</u>					
Chaulk, D. (PSD)	27,762	20,044	47,806	2,593	** -
Oakley, D. "	16,139	30,427	46,566	2,184	** -
Collins, N. "	21,860	59	21,919	28,213	28,213
Howley, R. "	16,268	8,962	25,230	-	-
Tucker, D. "	21,835	22,144	43,979	3,624	** -
Kennedy, B. (Avalon)	10,699	8,986	19,685	28,516	28,516
Walsh, K.	21,600	12,644	34,244	12,127	12,127
Costello, C. (Eastern)	16,526	14,492	31,018	13,802	** -
Stephenson, E. "	11,868	19,445	31,313	13,602	** -
<u>Other Staff</u>					
Surveyor	19,355	29,210	48,565	336	336
Asst. Prop. Negotiator	22,548	9,073	31,621	9,703	9,703
Planning Engineer	<u>30,755</u>	5,729	36,484	<u>21,466</u>	<u>21,466</u>
Total	<u>237,215</u>			<u>136,146</u>	<u>100,341</u>

** These portions of time could be provided from surplus time available in respect of technicians on standard distribution (see page 5 of explanatory notes).

The \$158,000 mentioned in P.U. 3 (1995-96) has nothing to do with employees charging less than \$10,000 a year of their salaries to GEC. It is in fact the Non-Labour element of GEC.

The above would revise incremental GEC from \$404,000 to \$556,000, as follows:

GEC as above	\$237,000
Add: Changes above	<u>100,000</u>
	<u>337,000</u>

Proportionately increased for employees charging less than \$10,000 a year into GEC:

$$1,067,000/743 \times 337,000 = 484,000$$

Proportionately increased for Non-Labour Costs:

$$1,225,000/1,067,000 \times 484,000 = \underline{\underline{\$556,000}}$$

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

OPERATING SUPERVISION - STANDARD DISTRIBUTION EMPLOYEES

P.U. 3 (1995-96), p.17

"Once again, the Board is of the opinion that the incremental method dictates that all of the salary and benefits and allocated percentage overhead per staff person required for the capital program should be capitalized, not a portion of their salary."

The PUB's figures would revise incremental GEC from \$305,000 to \$581,000, as follows:

	Salary plus <u>12% overhead</u>
Distribution Systems & Services	
Superintendent of Distribution Standards	56,871
Engineering Technician	50,470
St John's Region	
Technical Supervisor	60,285
Eastern Region	
Engineering Technicians (2)	101,942
Technical & Maintenance Supervisor	60,287
Western Region	
Engineering Technicians (3)	151,413
Power Systems Development	
Technical Specialist	<u>56,284</u>
	537,552
Add: 8% for Non-Labour	<u>43,004</u>
	<u>580,556</u>

NP's Analysis

The PUB's logic is correct - NP cannot employ half persons. However, it would be inefficient to employ people at full salary when they only have a workday from 45% to 70% of the normal. Therefore it is reasonable to assume that the work of people with similar skills located in similar geographical areas would be consolidated as much as practical into full workdays, and the unneeded surplus of labour not employed.

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

OPERATING SUPERVISION - STANDARD DISTRIBUTION EMPLOYEES (cont.)

Assuming that the highest paid would be employed first, because they should best be able to meet the skill requirements for both their own jobs and those of lower-paid colleagues, this would revise incremental GEC from \$305,000 to \$416,000 as follows:

	Salary plus 12% overhead	% now going to GEC	Assumed efficient incremental staff utilization %	
<u>St John's area</u>				
Distribution Systems & Services:				
Superintendent Distribution Standards	56,871	70	100	56871
Engineering Technician	50,470	70	-	-
Power Systems Development:				
Technical Specialist	56,284	70	100	56284
St John's Region:				
Technical Supervisor	<u>60,284</u>	<u>45</u>	100	<u>60284</u>
	<u>223,909</u>	<u>255**</u>	300	<u>173,439</u>
<u>Eastern</u>				
Engineering Technician	50,470	45	100	50,470
Engineering Technician	50,470	45	-	-
Tech & Maint Supervisor	<u>60,287</u>	<u>45</u>	100	<u>60,287</u>
	<u>161,227</u>	<u>135**</u>	200	<u>110,757</u>
<u>Western</u>				
Engineering Technician	50,470	45	100	50,470
Engineering Technician	50,470	45	100	50,470
Engineering Technician	<u>50,470</u>	<u>45</u>	-	-
	<u>151,410</u>	<u>135</u>	200	<u>100,940</u>
				385,136
				<u>30,810</u>
				<u>415,946</u>

** This surplus time, i.e. 0.45 of a person in St. John's and 0.65 of a person in Eastern Region, could be used to replace portions of the time of technicians on time sheets. (see Page 3).

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

TOOLS, EQUIPMENT and CLOTHING, LINESMEN'S RUBBER GOODS AND FREE ISSUES

P.U. 3 (1995-96), p.18

"Tools, Equipment and Clothing, Linesmen's Rubber Goods and Free Issues appear reasonable as proposed, but capitalized labour should include any adjustments referred to in this Order as well as any consideration for free issues or tools and the like to any contractors engaged to conduct construction activities."

NP's Analysis

Adjusting for the additional Capital Labour resulting from changes shown earlier in these Explanatory Notes, assuming that the PUB accepts NP's reasoning, produces the following:

	<u>Original Proposal</u>		<u>Revised Proposal</u>	
	Capital	Operating	Capital	Operating
Customer Services Division Labour	6,626	11,415	6,626	11,415
Adjustments:				
Direct Timesheet Charges (p.3 \$100,000 x 1,067,000/743,000)			143	(143)
Standard Distribution Employees (p.5: \$385 - 282)			<u>103</u>	<u>(103)</u>
	<u>6,626</u>	<u>11,415</u>	<u>6,872</u>	<u>11,169</u>
% of Total \$18,041	36.7%	63.3%	38.1%	61.9%
Rounded to	37%	63%	38%	62%

Therefore: Tools, Equipment & Clothing = \$846,000 x 38% = \$321,000
 Linesmen's Rubber Goods = \$ 68,000 x 38% = \$ 26,000
 Free Issues = \$324,000 x 38% = \$123,000

According to the Superintendent of Regional Engineering of St John's Region, NP would not in any normal circumstances issue tools, equipment or clothing to contractors, and the question of free issue would be unlikely to arise because the great majority of contractors currently employed, or who will be employed for the foreseeable future, handle pole installation not linework. If linework were required, it is more likely that NP's own temporary linemen would be rehired.

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

ACCOUNTING

P.U. 3 (1995-96), p.18

"It seems unrealistic to suggest that such a dramatic reduction in expenditures would not eliminate even one staff member and the associated benefits and overhead."

NP's Analysis

It is not unreasonable to assume that, if there were no capital program, the size of Accounting's staff could reduce. However, this would involve major reorganization, an agreement with the union that employees classed as managerial could do union work, and, without going through the exercise, it is extremely difficult to pinpoint which specific individuals would or would not be employed, much more so, say, than in the case of operations staff. (Operations could perhaps be described as many employees fulfilling few large functions, whereas accounting consists of few employees fulfilling many small functions.)

The two areas where one might reasonably think that there are a pool of people doing similar jobs which could therefore be reduced fairly easily in the event of no capital program are (i) Accounts Payable and (ii) Cost and Plant.

Accounts Payable: At first sight it would appear logical to assume that, where several clerks process accounts payable vouchers, if there were no capital program the number of clerks could be reduced. Due to the highly-integrated nature of NP's Fasbe Accounting system, Materials Management, Accounts Payable and General Ledger are modules of the same software. All items purchased by Purchasing Section of Accounting Department, which tend to be the larger items and thus more capital than operating in nature, are in fact processed for payment and recording in the General Ledger not by accounts payable clerks but by two materials management clerks in Purchasing Section. Since the costs of materials management personnel are applied as an overhead on inventory or purchases delivered onsite, the major portion of materials management clerks' costs is already being charged indirectly to capital. Accounts Payable section consists of 1 Officer and 2 clerks full-time and one clerk part-time. With numbers this small, if there were no capital program NP would have little flexibility to reduce staff in this area.

Cost and Plant: Through automation and other efficiencies, and a reduction in capital spending over the years, there are now only 1 Supervisor (who also supervises Payroll), 1 clerk full-time and 1 clerk part-time (who also processes timesheets and does other payroll-related duties) to handle capital, retirement and customer jobbing orders in progress and also the Plant records.

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

ACCOUNTING (cont.)

Even if there were to be an expanded capital program in future, there is no intention to increase the number of staff. Instead NP would rely on further efficiencies and/or automation.

Work improvements now in progress (standardizing the accounts coding of inventory, allied with bar coding) plus forms-flow computer technology planned for early 1996 (on-line work order initiation and approval by operations personnel) will result in much remaining capital-related work disappearing. It is intended to use surplus employee time to accelerate automation of the manually-kept and extensive Plant Ledgers, so that eventually Company-wide on-line access to Plant information will be achieved. This is work of an operating rather than a capital nature.

In summary, NP agree that Accounting staff overall could reduce in dire circumstances. Work deemed desirable, such as improvements to systems and procedures which over the years has resulted in better management information and a reduction in the number of Accounting staff, could be shelved while only absolutely essential work would be done.

If there were fewer employees in other Departments working on capital, the Accounts Payable section would process fewer travel claims and answer fewer vendors' enquiries; there would be fewer payroll cheques to be produced and reconciled, in fact less of everything.

However, even as a theoretical exercise, saying which specific employees would not be needed is extremely difficult. One could assume an arbitrary percentage, but this seems in effect to be getting back to the full-cost method of GEC and away from the incremental approach.

Since the PUB suggested the nominal rate of 10% in respect of Printing, for consistency's sake this might also be a reasonable rate to use in respect of Accounting. It translates as slightly more than two employees and would produce a figure of \$107,000 chargeable to GEC.

PRINTING

P.U. 3 (1995-96), p.19

"A nominal rate of 10% of printing costs seems an appropriate and reasonably expected amount to be eliminated if no capital program was undertaken."

NP's Analysis

Virtually no exclusively capital forms are produced - a maximum of 3,000 a year. Since forms change rarely, minimal design and layout work are required. This contrasts with 3,000,000

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

Billing Inserts a year, an operating form, of which about 15 different ones are produced annually.

Once again a Company-wide reduction of employees would result in reduced usage of forms common to both capital and operating work, such as travel expense claims. The staff of Printing Section consists of 1 Officer, 1 Printing Technician and 1 Desktop Publishing Operator. It is extremely difficult to identify a particular employee under the incremental method who would not be needed if there were no capital program. To achieve consistency with other hard-to-allocate costs such as Accounting and Human Resources, the PUB's suggested rate of 10% seems not unreasonable, which translates into \$15,000 a year.

MIS

P.U. 3 (1995-96), p. 19

"The Board accepts the rationale for the computers and software expense provided that the portion of these expenses associated with the staff identified earlier as incremental staff are included in the benefits and overhead associated with their costs."

NP's Analysis

Computers and major software are already capitalized, which leaves only minor software programs, such as Excel or Wordperfect packages, and maintenance costs of microcomputers. The amounts involved would be small and it would also be quite difficult to identify particular software packages or computer maintenance with specific individuals. This would be specially so given the nature of the incremental staff - mostly personnel who spend much of their time out of the office at various construction sites and would be likely to share computing facilities rather than have exclusive use of them.

The incremental GEC cost is impossible to determine, but it seems very likely to be insignificant, so NP has shown no costs as being charged to GEC.

**PERSONAL ILLNESS, EMPLOYEE WELFARE & RELATIONS, SAFETY MEETINGS,
TRAINING and EDUCATION, APPRENTICE TRAINING and COFFEE SUPPLIES**

P.U. 3 (1995-95), p.20

"These accounts should be allocated to capital on the basis of 'capital labour' plus all labour transferred through GEC as a percentage of total labour costs."

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

NP's Analysis

The 22% Capital / 78% Operating allocation calculated was based *purely* on capital vs operating labour figures in the 1995 Budget (excluding Personal Illness Etc. costs). Anything not classified as either capital or operating was deliberately omitted - namely Miscellaneous Labour, which makes up 9.6% of budgeted labour costs. Major elements of this are:

Materials Management & Transportation (41%) - these are already allocated indirectly to capital or operating by way of overhead charges.

Retirement Work Orders (23%) - in truth NP did not know how to include this in the calculations, since, although it is related to capital work, it would certainly be unfair to use it as a basis for calculating overhead applicable to capital *additions*. One could argue that it should be grouped with operating, because even if there were no capital-addition program there would presumably still be employees needed to retire worn-out existing plant. Because of this dilemma, the fairest course, since it represents only 2% of total labour, seemed to be to omit it from the calculations.

Direct GEC Charges (23%) - there was no practical way to take this into the calculation, because a guess would have had to have been made as to what the PUB would decide in respect of NP's proposal. Due to the magnitude of the reduction proposed, a wrong assumption could have resulted in an error many times greater than omitting it from the calculation altogether.

Although the ultimate GEC figure is still not finalized, it is hopefully close enough that GEC labour can now be taken into account - for this purpose, the figures NP derive in this document. The above would revise incremental GEC from \$624,000 to \$708,000, as follows:

	<u>Original Proposal</u>		<u>Revised Proposal</u>	
	Capital	Operating	Capital	Operating
	9,224	35,320		
less: Personal Illness Etc. costs		<u>2,834</u>		
	9,224	32,486	9,224	32,486
GEC-direct labour charges			497	570
-allocations from Operating			<u>* 642</u>	<u>(642)</u>
	<u>9,224</u>	<u>32,486</u>	<u>10,363</u>	<u>32,414</u>
% of Total	22.1%	77.9%	24.2%	75.8%
Rounded to	22%	78%	24%	76%
x \$2,834,000 costs = GEC of:	624		680	

(* Based on labour of: Operating Supervision 385; Tools, Eqpt 68; Linesmen's Rubber 17; Accounting 90; Printing 6; Human Resources 76.)

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

HUMAN RESOURCES PLANNING ADMINISTRATION AND SERVICES

P.U. 3 (1995-96), p.20

"The Board believes the staff involved in a minimum capital program of \$35 million would still attract overhead costs through human resources. The Board deems it necessary for the Applicant to review these departments again to determine, if there was no capital program, which costs would be eliminated."

NP's Analysis

As in the case of Accounting, it is very difficult to pinpoint specific individuals under the incremental method who would not be needed if there were no capital program. Such duties as new employee programs, the development and implementation of systems and procedures, the negotiation of union contracts, and dealings with NP's large number of retirees, would vary little from the present if there were no capital program, since NP would continue to employ substantial numbers of employees for non-capital duties. The only positions that could be considered as more or less directly related with the amount of capital work are those of the two Safety Officers.

If there were less staff Company-wide, *and assuming the right mix of job skills would remain*, the work of employees in Human Resources could be consolidated to some degree. Once again, using the PUB's nominal rate of 10% seems not unreasonable, which translates into 1 1/2 people and produces a figure of \$147,000 chargeable to GEC.

BUILDING RENTAL, OPERATIONS, REPAIRS AND MAINTENANCE

P.U. 3 (1995-96), p.21

"In the event of no capital program, less office and warehouse space is required and any surplus space could be eliminated from space currently leased. A rational approach should be used to determine how much rental space could be eliminated for the purpose of this incremental exercise."

**EXPLANATORY NOTES TO SCHEDULE "A" (REVISED)
INCORPORATING RECOMMENDATIONS OF P.U. 3 (1995-96)**

NP's Analysis

The only large rental is Gander Office at \$70,000 a year. *All rentals*, including Gander Office, total less than \$100,000 a year. Since most NP buildings are owned, these represent sunk costs. Unless portions of them were to be rented, which seems unlikely due to security and market considerations, the costs of operating them would not likely reduce if there were no capital program. Moving to smaller buildings would also not save money, even if such premises were available, because the net book value of the buildings are well below their replacement price.

In the event of no capital program, there would be virtually no reduction in building costs.

PENSION PLAN

NP's Analysis

On page 22 of P.U. 3 (1995-96), the PUB accepted the Company's rationale. However that was based on percentages which have now changed slightly from 22% Capital / 78% Operating to 24% Capital / 76% Operating. (See calculations above).

This would revise the incremental GEC from \$362,000 to \$395,000 ($\$1,645,000 \times 24\%$).