conductors, connections and equipment, and permits pro-active measures to be taken to avoid outages and improve overall quality of service.

In 1998, a Telephony Video Data ("TVD") system was implemented to improve customer service by providing automated voice messages to 255 callers simultaneously in each of NP's eight operating areas during widespread power outages. In 1999, further development of the TVD system will enable it to send automatic notices to specified customers who are highly dependent on their power supply.

Combined with new call centre technologies, NP has undertaken the cross-training and development of employees in order to facilitate the implementation of a number of improvements in the customer service area.

General Expenses Capitalized ("GEC")

During a hearing in 1989, NP informed the Board that it was studying its GEC policy because it was capitalizing costs that other Canadian utilities normally treat as expenses and, therefore, its GEC policy was out of line. NP was ordered to carry out a further study and report to the Board at the next rate hearing. The results of that study were presented at the 1991 rate hearing at which time the Board ordered that NP present a more detailed and documented proposal at the next hearing.

In the fall of 1995, after completing a detailed study, NP applied to the Board, *inter alia*, to seek approval of a more moderate policy for capitalization of general expenses. They proposed to abandon the full allocation method, which had been in effect since 1969, in favour of allocation on an incremental basis. Since changing to the incremental method could result in a rate impact of 3.9%, a phase-in period of three years was recommended by NP and expert witnesses. The expert witness appearing for the Board, at the time, proposed a phase-in period of five years which the Board felt was less aggressive, and subsequently ordered the five-year phase-in period to commence on January 1, 1995[P.U.3 (1995-96)].

P.U. 3 (1995-96) also set out guidelines for the capitalization of general expenses and, ordered that overhead costs would be considered to be incremental costs of capital projects, to the extent that they vary with the level of construction, as compared with no capital projects whatsoever, and that otherwise the overhead costs are expenses of the period in which they are incurred.

GEC will be allocated to hydro assets, diesel assets, substations, transmission, general property, transportation, communications, computer and software assets, and distribution assets through a flat rate.

The consumer advocate argued that, "these GEC figures should be re-calculated using the actual ratios for 1999, and these new ratios will indicate that more money should be sent to capital than is presently booked for 1999, and that this will, accordingly, lower the operating expenses of the company for 1999, and with that lower the revenue requirement".(transcript, Dec. 8, p. 28 and 29)

In P.U. 3 (1995-96), the Board recognized that the company would have to determine how specific general expense cost ratios may have to be adjusted over the period of the five year phase-in from a full cost basis to an incremental cost basis and, thereafter, any adjustments to the ratios was intended to be at the discretion of NP.

Prior to the commencement of this hearing the Board, in accordance with its usual practice, commissioned its financial consultant to carry out a financial analysis of the pre-filed evidence of NP and submit a report to the Board, which became a part of the official record of this hearing. At page 47, the report states that the change in accounting policy, from full cost allocation to incremental cost allocation, directly impacts the level of net operating expenses and net earnings through a reduction of transfers to GEC. The impact of this change on the financial results of NP is as follows:

Transfers to GEC/DSM/Stores (000's)

	Actual			Forecast	
	1995	**1996**	**1997**	**1998**	**1999**
Full cost accounting	$8,800	$7,913	$7,362	$6,859	$7,035
Incremental cost accounting(phase-in)	7,392	5,317	4,103	2,836	2,054
Increase in operating expenses	**$1,408**	**$2,596**	**$3,259**	$4,023	**$4,981**

Source: Grant Thornton report, p.48, Oct. 23, 1998

Grant Thornton concluded that GEC as forecast for 1998 and 1999 appears reasonable.

The Board agrees that there is no reason to revise or modify the accounting methodology regarding GEC and, therefore, concludes that its previous order adequately addresses the situation.

Labour Costs

Mr. Ludlow testified that total labour costs, which include permanent, temporary,