

1 **Q. CA 31.0 NP**

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3 **Reference: PUB 1.0 NP**

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5 **Preamble: NP states: “While cost management was indicated to be a key part of**
6 **the Company’s overall strategy of rate stability, no specific options**
7 **were identified to deal with the anticipated 2006 shortfall at that**
8 **time.”**
9

10 **What specific cost management measures, if any, have been identified and**
11 **considered since the General Rate Application filed October 11, 2002 to deal with**
12 **the shortfall in revenue requirement in the 2006 and 2007 years? If no specific cost**
13 **management measures have been considered, why is this the case?**
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15 **A. *Cost Management Generally***

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17 The Company did not implement specific measures *to deal with the shortfall in revenue*
18 *in 2006 and 2007.*
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20 The Response to PUB 5.0 NP indicates that 2006 operating expenses are forecast to be
21 broadly consistent with the 2004 test year. They are also similarly broadly consistent
22 with operating costs in 1999, 5 years prior to the 2004 test year. The forecast number of
23 customers served in 2006 is forecast to increase by 3% over the 2004 test year and 7%
24 since 1999.
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26 Cost management at Newfoundland Power is best characterized as a continuous process
27 involving many initiatives of varying degrees of significance implemented over time.
28 This approach is consistent with the regulatory requirement that management and
29 operations of a utility result in power delivery at the lowest possible cost consistent with
30 reliable service.
31

32 The 2006 forecast shortfall in revenue is driven by the conclusion of a \$5.8 million
33 depreciation true-up. While Newfoundland Power has managed cost effectively since its
34 last general rate application, its efforts in this regard were not aimed at dealing with the
35 2006 forecast shortfall in revenue. They were aimed at continued cost effective
36 management of its business.
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38 *Costs Measures Since 2003*

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40 The Company primarily relies upon organizational change, process improvements, the
41 implementation of select technology, and workforce reductions to achieve continuous
42 cost savings. Some of the more specific cost saving measures implemented since the last
43 General Rate Application includes:
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- *Early Retirement Program*

In 2005, the Company offered an early retirement program to eligible employees. This program resulted in cost savings through a reduction in the heavy vehicle fleet and labour costs.

- *Outsourcing of Cash Services*

The Company outsourced its cash services across the Island reducing labour costs.

- *Feeder Remote Control*

35 distribution feeders were converted to remote control. These feeders are now controllable from the System Control Centre rather than sending personnel to the site as was previously required.

- *Meter Reading*

Digital cameras are used for difficult to read meters, minimizing the need for repeat visits to the meter to verify the reading. As well, automated meters with remote capabilities are being installed in areas that are difficult or very time-consuming to read. For example, automated meters were installed at the Humber Valley Resort due to the amount of time it took to read the meters at this location.

- *Customer Service*

The introduction of eBills reduced the cost of mailing customer bills. An enhanced Website offers customers more self service options reducing labour costs in the Customer Contact Centre.

- *Labour Force*

Union contracts were updated to provide more flexibility in work assignments between area offices. This increased flexibility helped reduce the need to replace retired lines people.

These measures are consistent with the continuing Company focus on controlling operating expenses. Controlling operating expenses is essential for rate stability.