

1 Q. NP's 2014 MD&A, Page 3 states:

2  
3 *“Operating expenses increased by \$4.0 million, from \$55.7*  
4 *million in 2013 to \$59.7 million in 2014. The increase reflects*  
5 *higher labor costs associated with restoration and customer*  
6 *service efforts following the loss of generation supply from*  
7 *Hydro and power interruptions in January 2014.”*

8  
9 Please provide a listing by cost type of the \$4.0 million referenced above. Please  
10 confirm that these non-recurring expenses have been excluded from the 2016  
11 Forecast.

12  
13 A. **Breakdown of the \$4.0 million**

14 The quoted passage from Newfoundland Power's 2014 Management Discussion and  
15 Analysis (“MD&A”) is incomplete. See below the full explanation of the increase in the  
16 Company's operating expenses as provided in Newfoundland Power's 2014 MD&A.<sup>1</sup>  
17 Dollar values have been added to the explanation.

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19 2014 MD&A, Page 3 states:

20  
21 *“Operating expenses increased by \$4.0 million, from \$55.7*  
22 *million in 2013 to \$59.7 million in 2014. The increase reflects*  
23 *higher labor costs associated with restoration and customer*  
24 *service efforts following the loss of generation supply from Hydro*  
25 *and power interruptions in January 2014 [\$1.3 million]. The*  
26 *increase in operating expenses also related to (i) distribution*  
27 *maintenance costs, largely due to weather conditions experienced*  
28 *in the winter of 2014 [\$0.2 million]; (ii) an increase in bad debt*  
29 *expense associated with higher customer account balances during*  
30 *the winter of 2014 [\$0.6 million]; and (iii) inflationary increases*  
31 *[\$1.8 million].”*

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33 **Electrical System Events – Operating Costs**

34 Newfoundland Power does not agree that these cost associated with responding to  
35 electrical system events are non-recurring. Newfoundland Power's operating costs were  
36 higher in each year 2010 to 2015 as a result of responding to electrical system events.  
37 Electrical system events include (i) severe weather events and (ii) supply shortage events.

38  
39 **Severe Weather Events**

40 Over the 2010 to 2015 period Newfoundland Power has incurred operating costs of  
41 approximately \$4.2 million related to severe weather events. The operating expenses in a  
42 given year have ranged from \$125,000 in 2014 to \$1,940,000 in 2010. This does not

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<sup>1</sup> Operating costs included in Newfoundland Power's 2014 MD&A are on a financial reporting basis and include non-regulated expenses.

1 include operating costs related to more routine weather events that typically only take  
2 hours to facilitate repairs and return service to customers.<sup>2</sup>

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4 ***Supply Shortage Events***

5 In both 2013 and 2014, supply shortage events resulting from the unavailability of  
6 generation sources from Newfoundland and Labrador Hydro resulted in significant  
7 outages for Newfoundland Power’s customers. A system constraint event also occurred  
8 in March, 2015. There was nothing that the Company could do to prevent these events.<sup>3</sup>  
9 These types of events result in increased operating expense for Newfoundland Power.  
10 For example, the 2013 and 2014 supply issues resulted in additional operating costs of  
11 approximately \$0.5 million and \$1.2 million, respectively.<sup>4</sup>

12  
13 Newfoundland Power’s response capabilities to such events will likely be tested through  
14 the 2016/2017 test period.<sup>5</sup>

15  
16 ***2016 and 2017 Forecasts***

17 Newfoundland Power does not *directly* forecast operating and capital expenditures for  
18 electrical system events. However electrical system events do impact various operating  
19 cost types for forecast purposes. The most typical additional cost is overtime.<sup>6</sup> Overtime  
20 costs of approximately \$0.4 million in the 2016 and 2017 forecast can be attributed to  
21 responding to electrical system events. This compares to an average \$1.0 million in  
22 operating costs per year that the Company has incurred in response to electrical system  
23 events over the 2010 to 2015 period.

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<sup>2</sup> For additional information on the operating and capital cost impacts of severe weather events please refer to the response to Request for Information PUB-NP-040.

<sup>3</sup> Following extensive review of these electrical system events, the Board’s consultant, The Liberty Consulting Group, did not find that Newfoundland Power’s operations or conditions contributed to the outages experienced by customers. See The Liberty Consulting Group’s *Final Report addressing Newfoundland Power* of December 17, 2014, page 3.

<sup>4</sup> Supply issues and severe winter costs resulted in a total of \$1.3 million in additional operating costs in January 2014. This is comprised of \$1.2 million related to loss of supply issues and (ii) \$0.1 million related to the January 3<sup>rd</sup> winter storm.

<sup>5</sup> The Board’s consultant, The Liberty Consulting Group, found in its *Interim Report* of April 24, 2014 that “...a continuing and unacceptably high risk of outages from such causes remains for the 2015-2017 winter seasons.” These findings were essentially confirmed in The Liberty Consulting Group’s *Final Report addressing Newfoundland and Labrador Hydro* of December 17, 2014.

<sup>6</sup> Electrical system events impact an array of different cost types. In all material respects, only overtime was considered for forecast purposes.