

1 **Q. Reference: CA-NP-216**

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3 **Please prepare a list of any new requirements that result in increased costs that**
4 **offset identified productivity gains, quantifying each new requirement, for each year**
5 **from 2011 through 2017.**

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7 A. Newfoundland Power does not maintain an exhaustive inventory of new requirements
8 that result in increased costs. Instead, the Company looks to its overall cost performance
9 as a primary measure of operational efficiency and cost management.¹ Increases in
10 Newfoundland Power's costs tend to partially offset productivity gains the Company is
11 able to achieve. Several of these cost drivers are detailed in the Company's *2016/2017*
12 *General Rate Application*.

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14 Annual labour cost inflation is a combination of collectively bargained base wage
15 increases agreed to between the Company and its union and forecast progression
16 increases in employees' wages as a result of experience. Newfoundland Power's
17 cumulative labour inflation for the period 2013 to 2017F is 18.86%. This labour cost
18 inflation creates upward pressure on Newfoundland Power's costs.²

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20 Newfoundland Power uses the GDP deflator for Canada as a measure of non-labour cost
21 inflation.³ The cumulative GDP deflator for Canada over the 2013 to 2017F period has
22 been 7.5%.⁴ This non-labour inflation also causes upward pressure on the Company's
23 costs.

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25 Additional requirements for third party software licensing costs, Uncollectible Bills,
26 Other Company Fees, and stress testing of customer facing telecommunications systems
27 have also put pressure on Newfoundland Power's costs over the 2013 to 2017F period.⁵
28 These increased requirements are subsequent costs as described in the Company
29 Evidence and also serve to offset the Company's productivity gains.

30
31 Newfoundland Power's utility operations are managed with a view to achieving
32 sustainable levels of long-term operating efficiency. Management efficiency and cost
33 control must be balanced with responsiveness to customer expectations including those
34 related to electrical system reliability and emergency response. This approach is
35 consistent with the delivery of least cost reliable service to the Company's customers
36 over the long term.

¹ See the response to Request for Information PUB-NP-011 for a description of Newfoundland Power's approach to achieving long-term operating efficiency.

² See the response to Request for Information PUB-NP-016, page 1, lines 8-22 for details on Newfoundland Power's labour inflation.

³ The GDP deflator for Canada is an inflation measure recognized by the Board as reasonable in Order No. P.U. 36 (1998-1999).

⁴ See the response to Request for Information PUB-NP-016, page 2, lines 1-19 for details on Newfoundland Power's non-labour inflation.

⁵ See the response to Request for Information PUB-NP-016, page 2, lines 5-10.