

Q. Page 1-4, lines 11-12: Please provide the source and labour cost inflation data for 2013-2017F used to establish Newfoundland Power's operating labour cost increase at a rate approximately 2.2% per year lower than labour cost inflation.

A. General

Table 1 shows a comparison of Newfoundland Power's annual labour cost increase to the Company's annual labour cost inflation over the 2013 to 2017 forecast period.

Table 1
Annual Labour Cost vs. Labour Inflation
2013 to 2017 Forecast
(%)

	Annual Increase
Labour Cost Inflation	3.6
Labour Cost Increase	1.4
Difference	2.2

Labour Cost Inflation

Labour cost inflation represents the Company's weighted average labour cost increases over the 2013 to 2017 period. Weighted labour cost increases reflect a combination of collectively bargained base wage increases agreed to between the Company and its union and forecast progression increases in employees' wages as a result of experience.¹

The weighted labour cost increases were 4.25% in 2014, 3.75% in 2015 and 3.25% for 2016 and 2017.

The average of these annual increases is approximately 3.6%.²

Labour Cost Increase

Newfoundland Power's total operating labour costs are forecast to increase by a total of approximately 5.4% from 2013 to 2017.³ This represents an annual increase of approximately 1.4% through the 4 year period.⁴

¹ Please refer to the response to Request for Information PUB-NP-016 for further detail on Newfoundland Power's labour cost inflation.

² $(4.25\% + 3.75\% + 3.25\% + 3.25\%) / 4 \text{ years} = 3.625\%$, or approximately 3.6%.

³ In 2017, Newfoundland Power's labour costs are forecast to be \$35,749,000. This compares to the Company's 2013 labour costs of \$33,904,000. This is a difference of \$1,845,000, or 5.4%. See Table 3-9 *Labour Costs by Breakdown* on page 3-32 of the Company's Evidence for a breakdown of Newfoundland Power's labour costs for 2013 to 2017 Forecast.

⁴ $5.4 / 4 = 1.35$, or approximately 1.4%.

The Difference

The forecast annual increase of approximately 1.4% per year in total labour costs through the period compares to an annual increase in the Company's weighted average labour cost (or, labour inflation) of approximately 3.6%.

This implies an improvement in operating efficiency of approximately 2.2% per year.⁵

⁵ 3.6% - 1.4% = 2.2%.