Q. Page 1-9, lines 3-4: Please provide the yearly and cumulative inflation rates for the period 2013-2015F.

A. **General**

Newfoundland Power considers inflation separately for (i) labour costs and (ii) non-labour costs.

Labour Cost Inflation

Annual labour cost inflation is 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. For example, 2016 and 2017 includes a 2.5% negotiated increase and a 0.75% progression.[1]

See Table 1 below for Newfoundland Power's annual and cumulative labour inflation rates for 2013 to 2017 forecast.

Table 1
Labour Inflation Rates
2013 to 2017F
(%)

	2013	2014	2015F	2016F	2017F
Annual	4.36	4.25	3.75	3.25	3.25
Cumulative	-	8.61	12.36	15.61	18.86

Newfoundland Power's labour costs are forecast to increase by a total of approximately 5.4% from 2013 to 2017. This represents an annual increase of approximately 1.4% through the 4 year period.

[1] Labour progression represents the additional wage employees receive as they progress through their position. For union employees, labour progression is included in the Collective Agreement. For example, a Powerline Technician (PLT") Apprentice will start at 70% of the Tradesperson's rate and over a 4 year period, increase to 95% of the Tradesperson's rate. Typically, non-union employees enter a position at 80% of full salary and progress to full salary is expected within 5 years. The recognition of labour progression is reflective of the Company's changing labour force. For example, approximately 46% of Newfoundland Power employees currently have less than 10 years of experience. This compares to approximately 17% of employees that had less than 10 years of experience in 2007. This has been driven by increased new hires and retirements in recent years. For example, in the years 2012 to 2015, the Company has had approximately 200 new hires. This is primarily the result of increased retirements. The progression of these employees is expected through the 2016 and 2017 forecast periods.

Non-Labour Cost Inflation

For a test period, the Company projects reasonable forecast non-labour costs based upon changes in requirements resulting from changes in its operations.

Over the period from 2013 to 2017, Newfoundland Power's non-labour costs increased by approximately 7.9%, or approximately $1.8 million. Over 2/3rds of this increase, or approximately $1.2 million, is attributable to increases in Computing Equipment & Software ($529,000), Uncollectable Bills ($458,000), and Other Company Fees ($233,000). The requirements for increases in these costs are described in the Company Evidence. Excluding these items, Newfoundland Power's non-labour costs increased by under $600,000, or approximately 3.0%, over the period from 2013 to 2017.

For non-labour cost inflation forecasting that does not involve changes in Company requirements, Newfoundland Power uses the GDP deflator for Canada, a measure recognized by the Board as reasonable in Order No. P.U. 36 (1998-1999).

See Table 2 below for the GDP deflator for Canada for 2013 to 2017 forecast.[2]

Table 2
GDP Deflator for Canada
2013 to 2017F
(%)

	2013	**2014**	**2015**	**2016**	**2017**
Annual	1.4	1.8	0.1	2.1	2.1
Cumulative	-	3.2	3.3	5.4	7.5

[2] Based on the Conference Board of Canada Provincial Forecast: Medium-Term, July 16, 2015.