

1 **Q. What consideration has Newfoundland Power given to the business risks associated**
2 **with a declining number of customers, declining energy sales, increasing power**
3 **supply costs and increasing power supply risks?**
4

5 A. **A. Introduction:**
6

7 Newfoundland Power has given due consideration to its long term business risks
8 including those associated with a declining number of customers and declining energy
9 sales in the development of its corporate business strategy.
10

11 The population of the Province of Newfoundland and Labrador has, in fact, been in
12 decline for some time. Newfoundland Power's business strategy is responsive to this
13 ongoing dynamic. The Company has continued to focus upon the practical means to
14 enable it to fulfill its obligation to serve customers at least cost and earn its allowed
15 return.
16

17 This strategy has consisted of a combination of (i) organizing the business to ensure a
18 reasonable level of service quality throughout the service territory; (ii) reducing the
19 annually recurring operating costs incurred by the Company to a level consistent with
20 reasonable least cost service; and (iii) responding effectively to changes in its business
21 environment that occur on an ongoing basis.
22

23 These aspects of the Company's business strategy are routinely before the Board at
24 Newfoundland Power's general rate applications.
25

26 **B. Quality of Service:**
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28 Newfoundland Power manages system reliability through a combination of (i) capital
29 investment, (ii) maintenance practices and (iii) operational deployment.¹
30

31 The combination of Newfoundland Power's capital investment and maintenance practices
32 provides safe and adequate service to its customers. The Company's deployment of
33 human and physical resources throughout its service territory are consistent with prompt
34 restoration of service following customer outages.

¹ See *Volume 1, Company Evidence, Section 3: Operations, Reliability Management, page 3-9 et. seq.*

1 Table 1 compares Newfoundland Power's SAIDI and SAIFI in 1995 to that in 2014.
2
3

Table 1
SAIDI and SAIFI
1995 and 2014²

	1995	2014
SAIDI (hrs)	5.34	3.02
SAIFI (no.)	3.70	2.63

4
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6 Table 2 compares Newfoundland Power's customer satisfaction index in 1996 to that in
7 2014.³
8
9

Table 2
Customer Satisfaction
1996 and 2014

	1996	2014
Customer Satisfaction Index	71%	84%

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11
12 Newfoundland Power's overall strategy regarding quality of service has improved both
13 electrical system reliability and customer satisfaction over the long term.
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15 **C. Operating Cost Efficiency:**
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17 Newfoundland Power's operating costs per kWh in 1994, 2004 and 2014 are shown at
18 page 4-32, of the Company's Evidence. In the 20 years ending 2014, Newfoundland
19 Power's operating cost per kWh declined from 1.00¢ to 0.97¢ on a nominal basis. On a
20 *real* basis, this represents a decline in operating cost per kWh of almost 50%.⁴
21

22 Newfoundland Power's ability to achieve this degree of operating efficiency substantially
23 reflects its management of labor costs in challenging operating conditions. This has
24 resulted in a material reduction in the Company's workforce over the past two decades.

² The SAIDI and SAIFI statistics have been adjusted to remove the effects of severe weather events.

³ Newfoundland Power commenced conducting quarterly customer satisfaction surveys in 1996.

⁴ Inflation in the 20 years ending in 2014 was 46.2%.

1 Table 3 shows Newfoundland Power’s labor force expressed in FTEs in 1995 and 2014.
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3

Table 3
Workforce
Full Time Equivalents (FTEs)
1995 and 2014

	1995	2014
FTEs	868	665

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5
6 Between 1995 and 2014, Newfoundland Power has reduced its workforce by
7 approximately 23%.
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9 ***D. Responding to Change:***

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11 Like any business, Newfoundland Power is required to effectively respond to changes in
12 its environment that occur on an ongoing basis. These matters are routinely reviewed by
13 the Board.
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15 For example, in this Application, Newfoundland Power has indicated steps taken to
16 improve its emergency response capabilities and the resilience of its electrical system.
17 This will better enable the Company to respond to events such as those that have
18 occurred over the past 3 winter seasons as a result of shortage of wholesale power supply.
19

20 Similarly, in this Application, Newfoundland Power has indicated plans to accelerate its
21 implementation of automatic meter reading. Acceleration of implementation of this
22 technology should reduce operating costs by over \$1 million in the 2016/2017 test year.
23

24 Both of these plans are practical examples of Newfoundland Power initiatives which
25 permit the Company to fulfill its obligation to reliably serve customers at least cost. The
26 Company believes that sustainable least cost operations should help enable it to earn its
27 allowed return in both the short and long term.
28

29 ***E. Assessing Business Risk:***

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31 Newfoundland Power continues to experience risks associated with service territory
32 economics and customer demographics. Already, the Company is experiencing declines
33 in numbers of customers or energy sales in certain communities it serves. This is
34 expected to continue.⁵ Meanwhile, customers and energy sales are growing in the larger
35 urban centers.

⁵ See Volume 1, Company Evidence, Section 4: Finance, page 4-26, line 1 et. seq..

1 As indicated in the Company Evidence, the requirement to continue to invest in areas
2 which have fewer customers and declining sales, while increasing investment in growing
3 areas, presents a risk to long term cost recovery. In the near-term, Newfoundland
4 Power's corporate business strategy is to respond to this risk by continuing to maintain
5 service quality and effectively manage costs.

6
7 Over the longer term, risks associated with demographic changes (which include both a
8 declining and rapidly aging population) might include overall declining energy sales.
9 These risks are unlikely to present themselves in isolation. For example, recovery of
10 increasing energy supply costs from Hydro may make it more difficult for Newfoundland
11 Power to recover its own costs, including its allowed return.⁶ In addition, there are limits
12 to the cost flexibility available to the Company to respond to changes in the business.⁷

13
14 Newfoundland Power's business strategy assesses business risk dynamics on an ongoing
15 basis with a view to determining appropriate practical steps available to it to permit the
16 fulfillment of the obligation to serve customers at least cost and earn its allowed return.

⁶ In the early 1990s, as the Company responded to population decline, it had difficulty earning its allowed return on equity. In the six years from 1990 through 1995, Newfoundland Power was able to earn its allowed return on equity in only one year.

⁷ See *Volume 1, Company Evidence, Section 4: Finance*, page 4-32, line 1, *et. seq.*.