

1 **Q. Further to PUB-NP-009 and PUB-NP-011, please provide details of any specific**
2 **productivity measures utilized by Newfoundland Power.**
3

4 A. *General*

5 Newfoundland Power measures the productivity of its operations in a number of ways.
6 While each measure is informative, no single measure provides a complete picture of the
7 productivity and efficiency inherent in the Company's operations.
8

9 To evaluate the reasonableness and productivity of operating costs, the Company
10 measures (i) cost increases compared to inflation; (ii) gross operating cost per customer;
11 and (iii) operating cost per kWh. Newfoundland Power also measures the productivity of
12 its capital expenditure initiatives by means of a net present value analysis. These
13 measures provide an indication of the Company's productivity.
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15 *Inflation Based Productivity Measures*

16 In its *2016/2017 General Rate Application*, Newfoundland Power measured the
17 productivity of its operations by comparing its total operating labour costs to labour cost
18 inflation. In the 4 year period ending in 2017, the Company expects its total operating
19 labour costs to increase at a rate that is approximately 2.2% lower than labour cost
20 inflation.¹ This productivity is reflected in Newfoundland Power's 2016 and 2017 Test
21 Year rates and therefore passed on to the benefit of customers.
22

23 For non-labour costs that do not involve changes in Company requirements,
24 Newfoundland Power measures its productivity by comparing against the GDP deflator
25 for Canada.² Over the period 2013 to 2017 Newfoundland Power's non-labour costs
26 increased by approximately 3.0%. This compares to the cumulative increase of the GDP
27 deflator of 7.5% over the same period.³
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29 *Operating Costs per Customer*

30 Another productivity measure used by Newfoundland Power is gross operating cost per
31 customer. Over the period 2013 to 2015 the Company's operating cost per customer has
32 increased by approximately 2.5% or 1.2% per year.⁴ This demonstrates that the
33 Company's operating cost per customer remains stable.

¹ See the responses to Requests for Information PUB-NP-010 and PUB-NP-016 for a detailed description of Newfoundland Power's labour productivity measures.

² This excludes \$1.2 million attributable to increases in Computing Equipment & Software (\$529,000), Uncollectable Bills (\$458,000), and Other Company Fees (\$233,000) as described in the response to Request for Information PUB-NP-016. The GDP deflator for Canada is a measure recognized by the Board as reasonable in Order No. P.U. 36 (1998-1999).

³ See the response to Request for Information PUB-NP-016.

⁴ The Company's gross operating cost per customer for the years 2013 to 2015 are provided in the response to Request for Information PUB-NP-095.

1 *Operating Cost per kWh*

2 Newfoundland Power calculates its operating cost per kWh as a broad productivity
3 measure to demonstrate the relationship between operating costs and electricity delivered
4 to customers. The Company's operating cost per kWh has decreased from 1.00¢ per
5 kWh to 0.97¢ per kWh over the period 1994 to 2014.⁵ This demonstrates that the
6 Company's operating costs relative to the electricity sold to customers is stable.

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8 *Productivity Measures for Capital Expenditures*

9 Newfoundland Power's annual capital budget applications routinely include initiatives
10 aimed at improving productivity. Productivity relating to these projects is measured in
11 the form of a net-present-value ("NPV") analysis.⁶ A positive net present value indicates
12 that the project is consistent with least cost service to customers and will contribute to
13 productivity and operating efficiency.⁷

⁵ See Newfoundland Power's 2016/2017 General Rate Application, Volume 1, Application & Company Evidence, Section 4: Finance, page 4-32, Table 4-13.

⁶ In Order No. P.U. 6 (1991) the Board ordered "*In future, any expenditures of a material amount should be evaluated by the Company (NP) using a NPV methodology and this analysis together with its supporting justification shall be available to the Board upon request.*"

⁷ One example of where net-present-value analysis is utilized by Newfoundland Power is in its 2016 Metering Strategy filed as Report 4.4 in the Company's 2016 Capital Budget Application. The net-present-value analysis is presented in Appendix A.