

1 Q. **2017 General Rate Application - Operations**

2 Page 3.34, Table 3-17 – Hydro’s Operating Costs are forecast to increase by
3 approximately \$9.7 million or 7.3% in 2018 TY and \$12.6 million or 9.5% in 2019 TY
4 from those approved for the 2015 TY. Inflation is stated in footnote 71 to be 1.6% a
5 year or 4.8% for 2015-2018 and 6.4% for 2015-2019. Does Hydro believe that
6 forecast inflation is a relevant factor to consider in assessing the reasonableness of
7 the increases in Operating Costs?

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10 A. Yes, Hydro believes that forecast inflation is a relevant factor to consider is
11 assessing the reasonableness of the increases in Operating Costs. Applying forecast
12 inflation factors can provide a reasonable estimate of future costs as long as the
13 costs that inflation is applied to are representative of the costs going forward.

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15 Factors to be considered, other than forecast inflation are items such as
16 organizational changes, technology changes, and other changes in the business. An
17 example of a change negatively impacting operating costs is the Admin fee from
18 Nalcor for the Business Systems Transformation Program that includes both
19 operating costs and depreciation related to computers and software. Prior to 2017,
20 these costs were reported as depreciation expense in Hydro’s records.

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22 In Board Order No. P.U. 36(1998-1999), the Board accepted the GDP deflator for
23 Canada as an appropriate inflation index to forecasting non-labour operating
24 expenses.