

1 **Q. (Application Volume 1, Exhibit 3) It is stated “Operating forecasts for 2022 and 2023**
2 **reflect projected increases of 3.00% in 2022 and 2.85% in 2023 for labour, and non-**
3 **labour increases based upon the GDP deflator.” Why are operating costs forecast to**
4 **increase when the Board has approved every dollar requested in NP’s capital**
5 **budgets? Shouldn’t operating costs be decreasing as a result of capital**
6 **expenditures?**

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8 A. Newfoundland Power’s operating cost forecast for 2022 and 2023 reflects the Company’s
9 anticipated operational requirements during those years.

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11 When adjusted for inflation, Newfoundland Power’s operating cost per customer is
12 forecast to be approximately 16% less in 2023 than it was in 2011.¹ This indicates that
13 the Company will provide service more efficiently to customers in 2023 than it did a
14 decade ago.

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16 Newfoundland Power’s annual capital expenditures are the result of its statutory
17 obligation in serving customers. Approximately ¼ of annual capital expenditures result
18 from the requirement to serve new customers and customers’ increased electrical system
19 requirements. Approximately ½ of annual capital expenditures result from the need to
20 address deteriorated, deficient and failed plant.

21
22 Certain operating costs are decreasing as a result of capital expenditures approved by the
23 Board. These reductions are reflected in the Company’s 2022 and 2023 test years. For
24 example, lower street light maintenance requirements are forecast to reduce operating
25 costs by approximately \$1.9 million starting in 2021 due to implementation of the *LED*
26 *Street Lighting Replacement Plan*.² Labour efficiencies associated with the *Customer*
27 *Service System Replacement* project have also been reflected in the operating cost
28 forecast, which help offset additional information system costs associated with the
29 replacement system.³

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31 For additional information on how Newfoundland Power balances the cost and reliability
32 of the service provided to its customers, see response to Request for Information
33 PUB-NP-010.

¹ On an inflation-adjusted basis, Newfoundland Power’s operating cost per customer is approximately \$279 in 2011 and \$233 in 2023 $((233 - 279) / 279 = -016, \text{ or } 16\%)$.

² See the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2: Customer Operations*, page 2-34, footnote 77.

³ *Ibid.*, page 2-35, footnote 79.