

1 **Q. Reference 2.3.1 Operating Costs:**

- 2 (a) **Does NP believe that operating costs per customer are the best indicator of its**
3 **productivity trend? If not, what does NP believe to be the best indicator of its**
4 **productivity trend?**
5
6 (b) **Does NP believe that inflation as measured by the provincial Consumer Price**
7 **Index which is used as the deflator to determine operating costs per customer**
8 **in constant dollars is the relevant indicator of its total input price trend**
9 **(ignoring purchased power)? If not, what does NP believe to be the best**
10 **indicator of its total input price trend (ignoring purchased power)?**
11
12 (c) **Please provide a table showing for each of the past five years the percentage**
13 **increase in NP's operating costs and inflation (GDP deflator). Also show**
14 **proposed and forecast operating costs and forecast inflation (GDP deflator) for**
15 **the years 2009 through 2012.**
16
17 (d) **Please provide a table that compares NP to similar electricity distribution**
18 **companies in Canada and the United States for the years 2004 through 2008 in**
19 **terms of productivity performance.**

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21 A. (a) Operating cost per customer is one measure to assess Newfoundland Power's
22 productivity trend. No single measure is necessarily the *best* indicator of the
23 Company's productivity.
24
25 (b) Newfoundland Power has not studied the issue of what is the *best* indicator of its
26 *total input price trend (ignoring purchased power)*.
27
28 Inflation as measured by the Consumer Price Index reported by the Conference
29 Board of Canada has been used by the Company as a reasonable broad indicator of
30 the effects of inflation upon Company costs.
31
32 In Order No. P. U. 7 (1996-97), the Board accepted Newfoundland Power's use of
33 the GDP deflator for forecasting inflation for *non-labour* operating expenditures
34 and ordered the Company to research a suitable inflation index to measure
35 Newfoundland industrial cost inflation.
36
37 In Order No. P. U. 36 (1998-99), the Board ordered the adoption of the GDP
38 deflator for Canada as an appropriate inflation index for forecasting Newfoundland
39 Power's non-labour expenses. Newfoundland Power still considers the GDP
40 deflator for Canada to be the most suitable indicator of expected inflation for its
41 *non-labour* costs.

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- (c) Table 1 provides the percentage change in Newfoundland Power's operating costs and inflation (GDP deflator) for the period 2004 to 2010F. Newfoundland Power does not have a detailed operating cost forecast for 2011 and 2012.¹

Table 1
GDP Deflator
and
Percentage Change in Operating Costs

	2004	2005	2006	2007	2008	2009F	2010F
GDP Deflator ²	3.2%	3.8%	2.7%	3.4%	4.4%	(1.8%)	1.9%
% Change in Operating Costs	(0.7%)	0.1%	(1.6%)	2.5%	(2.0%)	8.2%	3.5%

- (d) Newfoundland Power provides an annual report to the Board on Peer Group Benchmarking. The most recent report ("The Report") is filed as Attachment A of CA-NP-181.

The Report uses composite data available from the Canadian Electricity Association ("CEA") for comparing NP's performance to similar companies in Canada. However, the CEA does not have any distribution cost-related measures available for publication.

The Report uses data available from the Federal Energy Regulatory Agency Commission for comparing NP's performance to similar companies in the United States.³

¹ In response to request for information CA-NP-43 (1st Revision), Newfoundland Power has filed a five-year financial forecast which includes a *pro forma* summary forecast of operating costs for 2011 and 2012.

² Source – Conference Board of Canada Provincial Forecast, July 16, 2009.

³ The Report includes data from 20 U.S. Utilities. Appendix C to the report *Peer Group Performance Measures for Newfoundland Power* filed with the Board on December 23, 2008 contains the list of American utilities included in the peer group.

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1 Table 2 shows the total operating expense per customer for the American peer
2 group and Newfoundland Power for the period 2004 to 2007. Data for 2008 was
3 not available at the time of filing the Report.
4
5

Table 2
Total Operating Expense Per Customer
2004 to 2007
(2007\$)

Year	American Peer Group	Newfoundland Power
2004	\$329	\$243
2005	\$354	\$247
2006	\$369	\$238
2007	\$400	\$231

6
7
8 Costs included in Table 2 are the total electrical operating and maintenance expense
9 (excluding fuel and purchased power) expressed on a customer account basis.