Q. Reference 2.3.1 Operating Costs:

(a) Does NP believe that operating costs per customer are the best indicator of its productivity trend? If not, what does NP believe to be the best indicator of its productivity trend?

(b) Does NP believe that inflation as measured by the provincial Consumer Price Index which is used as the deflator to determine operating costs per customer in constant dollars is the relevant indicator of its total input price trend (ignoring purchased power)? If not, what does NP believe to be the best indicator of its total input price trend (ignoring purchased power)?

(c) Please provide a table showing for each of the past five years the percentage increase in NP's operating costs and inflation (GDP deflator). Also show proposed and forecast operating costs and forecast inflation (GDP deflator) for the years 2009 through 2012.

(d) Please provide a table that compares NP to similar electricity distribution companies in Canada and the United States for the years 2004 through 2008 in terms of productivity performance.

A. (a) Operating cost per customer is one measure to assess Newfoundland Power's productivity trend. No single measure is necessarily the *best* indicator of the Company's productivity.

(b) Newfoundland Power has not studied the issue of what is the *best* indicator of its *total input price trend (ignoring purchased power).*

Inflation as measured by the Consumer Price Index reported by the Conference Board of Canada has been used by the Company as a reasonable broad indicator of the effects of inflation upon Company costs.

In Order No. P. U. 7 (1996-97), the Board accepted Newfoundland Power's use of the GDP deflator for forecasting inflation for *non-labour* operating expenditures and ordered the Company to research a suitable inflation index to measure Newfoundland industrial cost inflation.

In Order No. P. U. 36 (1998-99), the Board ordered the adoption of the GDP deflator for Canada as an appropriate inflation index for forecasting Newfoundland Power's non-labour expenses. Newfoundland Power still considers the GDP deflator for Canada to be the most suitable indicator of expected inflation for its *non-labour* costs.

(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%	3.6%	2.9%	3.5%	4.4%	(2.5%)	1.8%
% 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, 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, April 21, 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.

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

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

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