

1 **Q. With respect to the \$2.23 million variance between 2008 Forecast and Actual**
2 **Operating Costs, in detail please explain the reasons for the variance.**

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4 A. As stated in *A Note on Financial Presentation* at the beginning of *Volume 1: Application*
5 *and Company Evidence*, Exhibits 1 and 2 for the 2010 General Rate Application exclude
6 non-regulated expenses.

7
8 Excluding non-regulated costs, actual 2008 operating costs were \$736,000 less than
9 forecast 2008 operating costs. Please refer to the response to Request for Information
10 CA-NP-101.

11
12 Attachment A to this response *Operating Costs – 2008 Variances by Cost Category*
13 provides a detailed explanation of the \$736,000 difference between actual and forecast
14 2008 operating costs.

Operating Costs – 2008 Variances by Cost Category

Operating Costs - 2008 Variances By Cost Category (\$000s)

Breakdown	2008 Actual	2008 Test Year	Variance Test Year
Regular and Standby¹	24,485	24,822	-337
2008 actual cost was lower than the 2008 test year cost. In 2008 there were capital requirements in Substations to connect two windfarms and higher than anticipated work required due to major equipment failure. The nature of the capital work resulted in less operating maintenance being performed than was anticipated.			
Temporary	2,335	2,040	295
2008 actual costs were higher than the test year forecast. Operating labour associated with temporary employees is principally required to deal with leaves and vacation. The requirement for such replacements particularly within the customer service functions (meter reading and call center) were higher than anticipated in 2008.			
Overtime	1,634	1,443	191
Operating overtime is principally related to breakdown maintenance. The trend of continued reduction in breakdown maintenance cost experienced in recent years was forecast to continue in 2008. However increased failure in conductor and conductor hardware resulted in higher than anticipated overtime costs in 2008.			
Vehicle Expenses	1,569	1,495	74
The increase in vehicle costs over the 2008 test year forecast was due to higher than expected fuel prices.			
Operating Materials	957	1,124	-167
2008 actual cost was below the 2008 test year forecast. The reduced expenditure was principally due to the nature of the capital requirements in Substations resulting in less substation maintenance being performed.			
Inter-Company Charges²	37	47	-10
Inter-Company expenses were in line with the original forecast			
Plants, Subs, System Oper & Bldgs	1,782	1,820	-38
2008 actual cost was in line with the 2008 test year forecast.			
Travel	1,290	987	303
2008 travel costs were higher than the 2008 test year forecast. This was principally due to additional travel costs associated with union contract negotiations and more employee relocations than expected.			

Operating Costs - 2008 Variances By Cost Category (\$000s)

Breakdown	2008 Actual	2008 Test Year	Variance Test Year
Tools and Clothing Allowance	1,168	836	332
2008 tool & clothing costs were higher than the 2008 test year forecast. This was principally due to a larger employee base, higher than average Safety and Clothing costs principally due to the replacement cost of fire retardant clothing and additional clothing required for meter readers.			
Miscellaneous³	1,039	872	167
2008 actual costs were higher than test year due to Energy conservation rebates being higher than expected (74k); remainder was small miscellaneous items.			
Taxes and Assessments	-10	680	-690
2008 actual expenditure was lower than the 2008 test year forecast due to timing of the recognition of PUB assessments.			
Uncollectible Bills	834	1,050	-216
2008 uncollectible costs were below the 2008 test year forecast. Budget is based on historical expenditure but actual costs vary with economic conditions.			
Insurances	1,344	1,585	-241
2008 insurance costs were below the 2008 test year forecast. Insurance expenses are forecast based on the best information available at budget time but actual costs are subject to significant fluctuations based on market conditions. In addition, the 15% provincial retail sales tax on insurance premiums was eliminated effective January 1, 2008 and the inclusion of Terasen Gas Inc. into the Fortis group of companies lowered the allocation of insurance costs to Newfoundland Power.			
Retirement Allowances	308	175	133
2008 retirement costs were higher than the 2008 test year forecast. This was due to higher than average terminations and retirements.			
Education, Training, Employee Fees	265	248	17
2008 actual costs were in line with test year forecast			
Trustee and Directors' Fees	411	395	16
2008 Trustee and Director expenses were in line with the test year forecast.			
Other Company Fees	1,469	1,418	51
2008 Other Company Fee expenses were in line with the test year forecast.			
Stationery & Copying	204	372	-168
2008 actual costs were below the test year forecast. This was due to the timing of the purchase of bills and envelopes.			

Operating Costs - 2008 Variances By Cost Category (\$000s)

Breakdown	2008 Actual	2008 Test Year	Variance Test Year
Equipment Rental/Maintenance	708	725	-17
2008 Equipment Rental & Maintenance expenses were in line with the test year forecast.			
Telecommunications	1,622	1,630	-8
2008 actual Telecommunications expenses were in line with the test year forecast.			
Postage	1,312	1,571	-259
2008 actual was lower than the 2008 test year forecast because the 2008 budget was based on a two cent increase in lettermail postage rates. The increase did not happen until 2009.			
Advertising⁴	531	371	160
2008 actual was higher than 2008 test year due to additional conservation advertising (154K).			
Vegetation Management	1,377	1,400	-23
2008 actual expenditure was in line with the 2008 test year forecast.			
Computing Equipment & Software	475	776	-301
2008 actual was lower than the test year forecast. Computing Equipment & Software costs were lower in 2008 as a result of changes in the payment schedule for software maintenance expenses.			
Total	47,146	47,882	-736

Notes:

¹ The Regular and Standby labour for 2008 actual and 2008 test year has \$558,000 and \$366,000 of non-regulated costs removed respectively.

² Inter-Company Charges for 2008 actual and 2008 test year has \$551,000 and \$521,000 of non-regulated costs removed respectively.

³ Miscellaneous for 2008 actual and 2008 test year has \$453,000 and \$614,000 of non-regulated costs removed respectively.

⁴ Advertising for 2008 actual has \$22,000 of non-regulated costs removed. There were no non-regulated costs in the 2008 test year.