

Q. In CA-NP-102 (p. 3 of 3), the Company indicates that 2008 Postage was \$259,000 lower than forecast because the budget was based on a two cent increase in letter mail postage rates which did not occur until 2009. Please:

- (a) explain how a 2 cent change could produce such a large variance (\$259,000);**
- (b) provide postal rates in place in 2008, 2009 (f) and 2010 (f);**
- (c) explain why the Company's Postage costs (see Exhibit 2, line 24) are forecast to increase over 2008 and remain constant in 2009 (f) and 2010 (f), given the increased use of e-billings experienced by the Company.**

A. (a) The variance explanation for Postage in Attachment A to the response to Request for Information CA-NP-102 was incomplete. The variance for 2008 Test Year forecast associated with the anticipated increase in postage rates from Canada Post that did not occur was approximately \$69,000.

The variance of \$259,000 also included freight and courier expenditures that were \$61,000 less than the 2008 Test Year forecast. The remaining \$129,000 reduction in expenditures is related to a decreased volume of mail compared to historical amounts prior to 2007. The 2008 Test Year forecast was based upon historical postage expenditures that were increasing at a rate of 4.4% per year at the end of 2006. The expansion of electronic correspondence over the period from 2006 to 2008 has impacted postage expenditures, and is largely responsible for the \$129,000 reduction in postage expenditures from 2008 Test Year forecast.¹

(b) Table 1 shows postal rates in 2008 and forecast rates in 2009F and 2010F.

Table 1
Postal Rates 2008 – 2010F

	2008	2009F	2010F
Standard	\$0.52	\$0.54	\$0.57
Incentive ²	\$0.48	\$0.51	\$0.54

(c) Postage cost in 2009 is forecast to increase recognizing the combination of new customers and the forecast increase in postal rates. This will be somewhat offset by growth in *eBills* participation and the expanded use of electronic correspondence.

¹ Participation in eBills increased by 12,000 customers between 2006 and 2008. Also over this period the Company introduced other forms of electronic correspondence for customers, and consolidated written correspondence thereby reducing postage expenditures.

² Approximately 95% of Newfoundland Power's mail qualifies for incentive rates. Incentive rates are granted by Canada Post for mail that is sorted by the customer in a specific delivery criteria based on postal code.