

Q. Please provide a full reconciliation of Exhibit 4, Note 5 and Exhibit 8, Note 5, setting out detailed calculation of each cost and in particular offering an explanation in relation to the realized operating efficiencies of \$275,000 in 2001 as compared to the estimated administration costs of \$100,000 for 2012.

A. A. Introductory

Exhibit 4 is an historical revenue requirement analysis which provides an estimate of the benefits of the Joint Use Facilities Partnership Agreement (the "JUFPA") for the period 2001 through 2010. This Exhibit compares the revenues and costs of the JUFPA to the Joint Use arrangements preceding 2001.

Exhibit 8 shows a *pro forma* revenue requirement impact of the sale of 40% of the Joint Use Support Structures and the 2011 Joint Use Agreement (the "2011 JUA") for the period 2011 through 2015. This Exhibit compares the revenues and costs of the 2011 JUA to a 2011 renewal of the JUFPA.

Because Exhibits 4 and 8 are comparisons of different scenarios, the impacts indicated including the operating expense impacts, are not "fully reconcilable" to each other in an accounting sense. The operating expense impacts can, however, be fully explained for purposes of comparison.

Table 1 summarizes the incremental operating costs details as provided in Exhibit 4, note 5 and Exhibit 8, note 5.

Table 1
Incremental Operating Costs Comparison
\$000s

	Exhibit 4 Note 5		Exhibit 8 Note 5	
	2001	2011	2012	2013
Vegetation Management	250	-	(400)	(400)
Operating and Maintenance	175	-	(100)	(200)
Efficiencies / Administration	<u>(275)</u>	=	<u>100</u>	<u>100</u>
Total	150	-	(400)	(500)

For Exhibit 8, the operating expenses are shown for 2011, 2012 and 2013 for ease of explanation of transitional impacts from the Joint Use regime in effect from 2001 through 2010 to the new Joint Use regime.

B. The Costs***Vegetation Management***

In 2001, vegetation management costs incurred by Newfoundland Power increased by \$250,000 with the purchase of 40% of Joint Use Support Structures from Bell Aliant. This increased the cost incurred by Newfoundland Power from 60% to 100% of the total vegetation management costs required associated with Joint Use (total cost was approximately \$625,000 in 2001).

In 2011, vegetation management cost incurred by Newfoundland Power is not forecast to change as a result of the sale of Joint Use Support Structures to Bell Aliant. During 2011, a transition year for the new 2011 JUA, Newfoundland Power will be paid 40% of Joint Use Support Structures vegetation management costs by Bell Aliant.¹

In 2012 to 2015, vegetation management costs for Newfoundland Power are forecast to be reduced by the approximately \$400,000 as a result of the sale of poles to Bell Aliant. This is the result of Bell Aliant assuming the responsibility for performing 40% of the total vegetation management associated with Joint Use Support Structures (total cost is estimated to be approximately \$1,000,000 for 2012 to 2015)

Operating and Maintenance

In 2001, operating and maintenance cost incurred by Newfoundland Power increased by approximately \$175,000. This was simply the result of Newfoundland Power owning 40% more Joint Use Support Structures (i.e. more inspections, maintenance, etc.).

In 2011, operating and maintenance costs incurred by Newfoundland Power are not forecast to change as a result of the sale of poles to Bell Aliant. During 2011, a transition year for the new 2011 JUA, Newfoundland Power will be paid 40% of Joint Use Support Structure operating and maintenance costs by Bell Aliant.¹

In 2012, Bell Aliant will assume responsibility for operating and maintenance costs associated with 40% of the Joint Use Support Structures. As a result of owning fewer poles Newfoundland Power is estimating that its operating and maintenance costs will decrease by approximately \$200,000 on an annual basis. 2012 will be a transitional year for this change and as a result only one half of the decrease (\$100,000) is estimated to be realized in that year. The full impact of the \$200,000 decrease in operating and maintenance costs is expected to be realized from 2013 onward.

¹ This is part of the capital and operating maintenance which will be performed by Newfoundland Power on behalf of Bell Aliant which is referred to at Page 12, footnote 30 of the Prefiled Evidence.

Efficiencies / Administration Costs

Prior to 2001, both Newfoundland Power and Bell Aliant had differing practices for:

1. Inspection and maintenance; and
2. Data management and administration.

These differing practices resulted in higher aggregate Joint Use operating costs. These issues were addressed by Newfoundland Power following the purchase of the Joint Use Support Structures in 2001. Changes initiated resulted in improved efficiencies which Newfoundland Power estimated reduced Joint Use costs by \$275,000 per year. These efficiencies are expected to continue under the 2011 Joint Use Agreement.

In 2012, the effect of the 2011 JUA is expected to increase administration costs by \$100,000. The forecast annual increased administration costs of approximately \$100,000 is attributed to approximately \$50,000 per year in new GIS database costs plus \$50,000 per year in additional, but currently unidentified, costs.

A further explanation of these impacts is provided below.

Inspection and Maintenance

Prior to 2001, there was room for further efficiency improvements with respect to inspections and maintenance of Joint Use Support Structures. For example, each party had differing inspection and maintenance standards.

Under the 2011 JUA, Newfoundland Power will perform inspection and maintenance on the 60% of the Joint Use Support Structures, those owned by Newfoundland Power, and Bell Aliant will perform the inspection and maintenance on the 40% of the Joint Use Support Structures, those owned by Bell Aliant. All inspection and maintenance will continue to be based upon the Newfoundland Power standards. Accordingly, the efficiency improvements resulting from consolidation of standards under the JUFPA will be maintained under the 2011 JUA without incurring additional costs.

Data Management and Administration

In 1996, a negotiated agreement with the cable operators settled the dispute over pole attachment counts and eliminated the use of the system used to track cable attachments. An approach using changes in the number of cable customers as a proxy for changes in the number of pole attachments was implemented in 1997 and has been in place since then.² Following the Joint Use Support Structure purchase in 2001, a proxy based on the percentage of attachments at the time of the sale was put in place for Joint Use and has been in place since then.

² During the 1990s, Newfoundland Power maintained a joint use system to track all installations of, and attachments to, Joint Use Support Structures. This was a paper based system that was costly to administer requiring continuous correspondence between Newfoundland Power, Bell Aliant and cable operators. Please refer to the Response to Request for Information PUB-NP-80 for more information on this arrangement.

1 Following the 2011 pole count survey, technology will be utilized to keep track of Joint
2 Use Support Structures. As part of the pole count survey, the parties will establish and
3 maintain a new GIS based database. The drawings for all new Joint Use Support
4 Structure installations of Newfoundland Power, accompanied by their GPS coordinates,
5 will be electronically shared.³ This database will have a cost to Newfoundland Power of
6 approximately \$50,000 a year.

7
8 Newfoundland Power does not currently expect to use its field staff to monitor third party
9 attachments to its Joint Use Support Structures on a day to day basis. The 2011 pole
10 count survey will provide the 2011 number of attachments for each cable operator.
11 Newfoundland Power currently expects to be able to negotiate annually updated
12 attachment counts for third parties for billing purposes based upon a mutually agreeable
13 formula. Accordingly, the data collection approach under the 2011 JUA is not expected
14 to require additional administrative effort from field personnel of Newfoundland Power
15 than currently is required under the JUFPA.

16
17 However, for the purposes of cost estimation it was thought to be reasonable to forecast
18 some level of increase in effort for 2012 as a result of the change from sole ownership to
19 joint ownership of Joint Use Support Structures. The Company has estimated this cost at
20 \$50,000 per year.

21 22 **C. Conclusion**

23
24 The operating expense impacts indicated in each of Exhibit 4 and 8 differ because
25 Exhibits 4 and 8 are comparisons of different scenarios.

26
27 When *all* relevant costs and cashflows are considered, Exhibit 4 indicates that, compared
28 to the Joint Use arrangements existing in 2000, the JUFPA provided benefits (expressed
29 in revenue requirements) to Newfoundland Power and its customers from 2001 through
30 2010 with a net present value of \$10.1 million.

31
32 When *all* relevant costs and cashflows are considered, Exhibit 8 indicates that, compared
33 to renewal of the JUFPA in 2011, the sale of 40% of the Joint Use Support Structures to
34 Bell Aliant and the 2011 JUA will yield benefits (expressed in revenue requirements) to
35 Newfoundland Power and its customers from 2011 through 2015 with a net present value
36 of \$0.5 million. These benefits are in *addition* to those described in Exhibit 4.

³ Joint Use drawings have been electronically shared between Newfoundland Power and Bell Aliant under the JUFPA for years. The addition of GPS co-ordinates is a new feature.