

1 Q. Has Hydro made an allowance for productivity in its test year operating expenses? If
2 so, please explain how the productivity allowance was arrived at. If not, please
3 explain why not.

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6 A. Hydro has achieved productivity gains over the 2007 to 2013 time frame in the area
7 of workforce and cost management. As outlined in its evidence, Hydro has added a
8 further 18 Engineering and Operations FTEs to its workforce while resulting in an
9 overall increase of only two FTEs since 2007. Since 2007, operating labour costs
10 have decreased by 0.01¢/kWh on an inflation adjusted basis¹ from 0.83¢/delivered
11 kWh in 2007 to 0.82¢/delivered kWh² in the 2013 Test Year. This has been achieved
12 while Hydro has implemented a retention and recruitment initiative in order to
13 have the available workforce necessary to continue to meet its infrastructure
14 renewal challenge.

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16 Hydro continues to target productivity improvements in the future. The 2013 Test
17 Year includes a vacancy allowance of 40 FTEs, or \$3,175,000 and a challenging
18 reduction in overtime expenses from historic levels³. Management is targeting to
19 reduce higher cost overtime through improved redeployment of staff and
20 recruitment initiatives outlined in the response to NP-NLH-085. If reductions are
21 not achieved, Hydro will incur higher costs which will negatively impact net income

¹ Adjusted for inflation using general economic adjustment factor for salaries: 2007: 3.0%; 2008: 3.0%; 2009: 3.0%; 2010: 6.5%; 2011: 4.0%; 2012: 4.0% and 2013: 4.0% which excludes merit, special market based adjustments and other factors.

² Calculated as the ratio of the salary cost category to energy delivered. This is indicative of improved productivity as the assets are used more intensively requiring additional maintenance and in some areas there are customer-driven asset additions resulting in more required maintenance.

³ Overtime cost in 2011 was \$9.5m and in 2012 was \$10.6m and is budgeted at \$8.6m in the 2013 Test Year.

- 1 however, customers will still benefit through lower Test Year based rates. Refer
- 2 also to Hydro's response to CA-NLH-210.