

1 Q. The position description of Vice-President, Newfoundland and Labrador Hydro lists
2 final management as a key responsibility area (see PUB-NLH-229, Attachment 1, p.
3 6 of 19) states, “Provides leadership throughout NLH to maintain a high cost control
4 environment to optimize cost for delivery of electricity related services to
5 customers.” Please describe in detail how Hydro measures whether it is achieving
6 and maintaining a high cost control environment and as part of the reply, please
7 specifically identify what targets Hydro has set for itself to control costs over the
8 past 5 years and how Hydro’s performance compares to the same.

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11 A. Hydro has implemented financial processes to achieve and maintain a high cost
12 control environment. On an annual basis, before the beginning of each fiscal year,
13 budgets are prepared, reviewed by management and the executive before
14 finalization and presentation to the Hydro Board for approval. As the fiscal year
15 progresses, the budget is measured monthly against actual results at various levels
16 within the Hydro organization with variance analysis prepared on cost drivers.
17 Regular reporting to managers and executives occur at leadership meetings held to
18 discuss status on achieving financial budget targets.

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20 Hydro measures and monitors all financial components of its revenue requirement
21 and return on rate base. Particular focus is placed on operating expenses with all
22 senior managers held accountable to stay within budget levels. As shown in Chart
23 1.10 of the GRA evidence, over the period 2007 to 2013, the increase in Hydro’s
24 operating expenses have been managed to be close to inflationary levels, with
25 inflation averaging 2.0% annually over the period, while the increase in operating
26 expenses is forecast to average 2.3% annually. Return on rate base has also been a
27 measure tracked and reported at the senior level. Actual return on rate base ranged

1 from a low of 6.29% in 2010 to a high of 7.46% in 2011. In 2013, Hydro established
2 additional financial metrics regarding capital, operating costs, cash flow and
3 earnings that measure budget against actual results.