

1 Q. **Other**

2 Further to CA-NLH-211, has Hydro made an allowance for productivity in its test
3 year operating expenses? If so, please explain how the productivity allowance was
4 arrived at. If not, please explain why not.

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7 A. Hydro has achieved productivity gains over the 2007 to 2015 time frame in the area
8 of workforce and cost management. The table below shows that over the period
9 2007 to 2013 Hydro achieved an overall reduction in its workforce of five FTEs. This
10 was accomplished while increasing the Engineering and Operations workforce from
11 637 to 649 and reducing Executive and Administration from 176 to 159.

Full Time Equivalents	2007	2008	2009	2010	2011	2012	2013	2014	2015
Executive and Administration	176	164	162	156	156	154	159	166	172
Engineering and Operations	637	633	642	653	649	647	649	694	716
Total FTEs	813	797	804	809	805	801	808	860	888

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13 As outlined in the Evidence to Hydro's Amended Application, pages 1.29 – 1.30:

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15 The work load associated with maintaining, refurbishing and replacing
16 aging infrastructure continues to grow. Additional staff in critical
17 operational roles are required to support the increasing capital
18 investment in the renewal of the power system. Also, many of the
19 assets in operation, which have not yet been replaced or refurbished,
20 require additional and more frequent maintenance intervals to provide
21 a reliable electricity supply to Hydro's customers. This additional work
22 requires additional planning and skilled trades workers to ensure
23 appropriate and efficient work execution.

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25 Beginning in 2014, and continuing to 2015, Hydro is making adjustments
26 in its operating expenses, and in particular staffing levels, to reflect
27 changing circumstances in its business to ensure cost effective and
28 reliable service to customers. The details and justification for changes in

Hydro's cost levels for 2014 and 2015 Test Years is included in Hydro's Regulated Activities evidence.¹

Since 2007, operating labour costs have increased by just 0.01¢/kWh on an inflation-adjusted basis² from 0.83¢/delivered kWh in 2007 to 0.84¢/delivered kWh³ in the 2015 Test Year. This has been achieved while Hydro has increased its work force as described above and implemented a retention and recruitment initiative in order to have the available workforce necessary to continue to meet its infrastructure renewal challenge.

Hydro continues to target productivity improvements in the future. The 2015 Test Year includes a vacancy allowance of 40 FTEs, or \$3,336,000 and a challenging reduction in overtime expenses from historic levels⁴. Management is targeting to reduce higher overtime costs through redeployment of staff and recruitment initiatives outlined in Hydro's response to NP-NLH-085. If reductions are not achieved, Hydro will incur higher costs that will negatively impact net income; however, customers will still benefit through lower Test Year based rates.

¹ Refer to Hydro's Amended Application, Regulated Activities, Section 2.4.

² 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%; 2013: 4.0%; 2014: 3.0%; and 2015: 2.0%, which excludes merit, special, market based adjustments and other factors.

³ 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.

⁴ Overtime cost in 2013 was \$12.3m and in the 2014 Test Year is \$12.2m and is budgeted at \$10.1m in the 2015 Test Year.