

1 Q. **COS Study**

2 **Re: Amended Application, p. 2.32, Table 2.3**

3 Please explain why System Equipment Maintenance expenditures fell by \$0.7
4 million from 2007 to 2014 (3%), while Salaries and Benefits increased by \$19.7
5 million (33.8%).
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8 A. As shown in Table 2.3 of the Regulated Activities Evidence to Hydro's Amended
9 Application, System Equipment Maintenance (SEM), costs of \$22.4 million in the
10 2014 Test Year are \$0.7 million less than the 2007 Actual cost of \$23.1 million. The
11 primary reason for the decrease was a reduction in Generation SEM costs of \$3.9
12 million partially offset by an increase in Transmission and Rural Operations (TRO)
13 SEM costs of \$3.2 million. The primary reasons for the \$3.9 million reduction in
14 Generation SEM costs relate to completion of amortization of costs associated with
15 extraordinary repairs and expenses in Holyrood as well as the discontinuation of
16 overhaul costs since capitalization of major overhauls was approved by the Board in
17 Order No. P.U. 2(2012). The primary drivers of the increase in TRO SEM costs are
18 \$1.4 million of vegetation management expense and \$1.8 million related to
19 improving transmission and distribution reliability.
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21 The primary driver for the salary and benefit cost increase of \$19.7 million from
22 2007 to 2014 Test Year is the cost of living salary adjustments, which total \$16.8
23 million for the seven year period. Also FTE growth attributes to the salary and
24 benefits increase. In the 2014 Test Year, there are 861 operating FTEs; this is an
25 increase of 44 FTEs over 2007 Actual of 817. This results in additional costs of \$6.0
26 million. Please refer to Hydro's Amended Application, Section 2: Regulated
27 Activities, p. 2.32 to 2.38, for detailed salary and benefit variance explanations.