

1 **Q. Section 2.3.1 p. 2-28:**

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3 **Please explain how regulatory activity has increased labour costs.**

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5 **A.** Regulatory labour costs have increased due to a combination of increased regulatory  
6 activity and succession planning. As indicated in the Company evidence, these costs  
7 have increased by approximately \$0.2 million over the period 2010 through 2014.<sup>1</sup>

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9 Regulatory activity has increased in response to the number of regulatory applications  
10 and the complexity and extended timelines associated with many of them.

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12 One example of the increase in the number of applications made by Newfoundland  
13 Power is the 3 applications taken by the Company in the past 12 months to address return  
14 on equity.<sup>2</sup> Typically, the more applications that are made to the Board, the more labour  
15 costs will be incurred.

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17 Examples of more complex and long-lived applications include the currently outstanding  
18 industrial rates/RSP applications and Hydro's December 2011 depreciation methodology  
19 application. While Newfoundland Power may not necessarily be the most active  
20 intervener in Hydro applications, the fact that supply costs account for almost 2/3rds of  
21 the Company's cost of service practically requires attention be paid to material Hydro  
22 applications. Typically, the longer applications in which Newfoundland Power is  
23 interested are outstanding before the Board, or the more complex those applications are,  
24 the more regulatory labour costs will be incurred by the Company.<sup>3</sup>

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26 Regulatory labour costs also reflect increased staff development and succession planning  
27 in regulatory affairs. Regulatory management requires specialized skills and the market  
28 for staff with those skills tends to be small. This practically requires the Company to  
29 develop its own regulatory staff. The high degree of skills specialization makes  
30 development timelines relatively long. When retirements are forecast, potential  
31 replacements are typically required to be recruited well in advance of the retirement.<sup>4</sup>

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33 Newfoundland Power is a regulated public utility. It is practically required to respond to  
34 regulation in both the short and long term. Increasing staff to respond to increased  
35 regulatory activity over the past 4 years and taking appropriate steps to ensure adequate  
36 regulatory skills exist within the Company are two ways the Company maintains its  
37 capability to respond to regulation in the short and long term.

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<sup>1</sup> Regulatory labour costs are forecast to be \$993,000 in 2014. They were \$815,000 in 2010.

<sup>2</sup> By comparison, following Order No. P.U. 19 (2003), except for uncontroversial Formula applications, return on equity was not again addressed by the Board until 2007.

<sup>3</sup> A feature of increased *process* complexity in regulatory matters can be seen in the discovery process in this Application. In the 1<sup>st</sup> round of information requests on this Application, the Consumer Advocate submitted 529 requests for information. This is over 200, or 65%, more than were submitted by the Consumer Advocate on the 1<sup>st</sup> round of information requests at the Company's 2008 general rate application.

<sup>4</sup> This occurred in 2011-2012. When the Company's Rates and Cost Specialist indicated an intention to retire in 2012, a potential replacement was recruited in the year prior to retirement.