

Q. 2013-2014 General Rate Application, Company Evidence

What consideration has Newfoundland Power given to its long-term business risks of a declining number of customers and declining energy sales in the development of its corporate business strategy for the next 5, 10 and 20 year periods? If the answer is that consideration has been given to these risks, how are they addressed? If the answer is no, why not?

A. A. Introduction:

Newfoundland Power has given due consideration to its long term business risks including those associated with a declining number of customers and declining energy sales in the development of its corporate business strategy.

The population of the Province of Newfoundland and Labrador has, in fact, been in decline for some time. Over the past 20 years, population declined by 9.3%. In the next 20 years, population is expected to further decline by 5.6%.

Newfoundland Power's current corporate business strategy is responsive to this ongoing dynamic. Over the past 20 years, the Company has focused upon practical means to enable it to fulfill its obligation to serve customers at least cost and earn its allowed return.

This strategy has consisted of a combination of (i) organizing the business to ensure a reasonable level of service quality throughout the service territory; (ii) reducing the annually recurring operating costs incurred by the Company to a level consistent with reasonable least cost service; and (iii) responding effectively to changes in its business environment that occur on an ongoing basis.

These aspects of the Company's corporate business strategy are routinely before the Board at Newfoundland Power's general rate applications.

B. Quality of Service:

Newfoundland Power manages system reliability through a combination of (i) capital investment, (ii) maintenance practices and (iii) operational deployment.¹

Newfoundland Power's capital investment is substantially devoted to aged and deteriorated facilities required to provide safe and adequate service to its customers. These expenditures will tend to improve reliability simply because newer plant is inherently more reliable than older plant.

¹ Newfoundland Power's system reliability management practices were fully described in the Company Evidence filed in support of the 2008 general rate application (see *Volume 1, Application and Company Evidence, Section 2: Customer Operations* at page 10 et. seq.)

Newfoundland Power's electrical system maintenance practices also contribute to least cost, reliable service delivery. As the Company's electrical system assets increase in age, maintenance costs as a proportion of installed plant value is decreasing.² Newfoundland Power's overall system reliability is affected by its ability to respond to power outages anywhere in the Company's service territory in a timely manner. This requires employees and materials to be deployed throughout the service territory.³

Newfoundland Power's responsiveness to the evolving service preferences of customers has been before the Board on a consistent basis over the two decades which the population in the province has been in decline.⁴

Table 1 compares Newfoundland Power's SAIDI and SAIFI in 1992 to that in 2011.

Table 1
SAIDI and SAIFI
1992 and 2011⁵

	1992	2011
SAIDI	4.75	2.57
SAIFI	3.46	1.70

Table 2 compares Newfoundland Power's customer satisfaction index in 1996 to that in 2011.⁶

Table 2
Customer Satisfaction
1996 and 2011

	1996	2011
Customer Satisfaction Index	7.07	8.85

² See *Volume 1, Application and Company Evidence, Section 2: Customer Operations*, page 2-10 to 2-11.

³ Newfoundland Power currently has line persons situated in 22 locations.

⁴ See for, example, the Company Evidence filed in support of the 2008 general rate application (see *Volume 1, Application and Company Evidence, Section 2: Customer Operations* at page 30 *et. seq.*) and the Company Evidence filed in support of this Application (see *Volume 1, Application and Company Evidence, Section 2: Customer Operations* at page 2-8 *et. seq.*).

⁵ The SAIDI and SAIFI statistics have been adjusted to remove the effects of severe weather events as described in the Company Evidence filed in support of this Application (see *Volume 1, Application and Company Evidence, Section 2: Customer Operations* at page 2-5).

⁶ Newfoundland Power commenced conducting quarterly customer satisfaction surveys in 1996.

Newfoundland Power's overall strategy regarding quality of service has improved both electrical system reliability and customer satisfaction over the long term. It has also enabled the Company to reduce annually recurring operating costs.

C. Operating Cost Efficiency:

Newfoundland Power's operating costs per kWh in 1991, 2001 and 2011 are shown at page 3-23, of the Company's Evidence. In the 20 years ending 2011, Newfoundland Power's operating cost per kWh declined from 1.06¢ to 1.02¢ on a nominal basis. On a *real* basis, this represents a decline in operating cost per kWh of over 40%.⁷

Newfoundland Power's ability to achieve this degree of operating efficiency substantially reflects its management of labor costs in challenging operating conditions.⁸ This has resulted in a material reduction in the Company's workforce over the past two decades.

Table 3 shows Newfoundland Power's labor force expressed in FTEs in 1992 and 2011.

Table 3
Workforce
Full Time Equivalents (FTEs)
1992 and 2011

	1992	2011
FTEs	1004	640

Between 1992 and 2011, Newfoundland Power has reduced its workforce by approximately 36%.

D. Responding to Change:

Like any business, Newfoundland Power is required to effectively respond to changes in its environment that occur on an ongoing basis. These matters are routinely reviewed by the Board.

For example, in this Application, Newfoundland Power has indicated plans which respond specifically to increased demand for customer energy conservation programming. These plans will increase Newfoundland Power's costs; however, they

⁷ See the Company Evidence filed in support of this Application (*Volume 1, Application and Company Evidence, Section 3: Finance*, footnote 77 at page 3-24).

⁸ Labor costs account for between 55% and 60% of Newfoundland Power's annually recurring operating costs. See the Company Evidence filed in support of this Application (*Volume 1, Application and Company Evidence, Section 2: Customer Operations* at page 2-29).

1 will reduce Newfoundland and Labrador Hydro production costs by a greater amount.
2 This improves the overall efficiency of the electrical system that serves Newfoundland
3 Power's customers.
4

5 Similarly, in this Application, Newfoundland Power has indicated plans to increase its
6 workforce by 17 FTEs by 2014. This is partially driven by the ongoing demographic
7 transition and partially driven by expanded customer energy conservation programming.
8 The former is transitional, but is required to ensure long term delivery of safe and reliable
9 service to customers at least cost. The latter enables the improved overall efficiency of
10 the electrical system mentioned above.
11

12 Both of these plans are practical examples of Newfoundland Power initiatives which
13 permit the Company to fulfill its obligation to serve customers at least cost in both the
14 short and long term. The Company believes that sustainable least cost operations should
15 help enable it to earn its allowed return in both the short and long term.
16

17 ***E. Assessing Business Risk:***
18

19 Newfoundland Power is already experiencing declines in numbers of customers or energy
20 sales in certain communities it serves. This is expected to continue.⁹ Meanwhile,
21 customers and energy sales are growing in the larger urban centers.
22

23 As indicated in the Company Evidence, the requirement to continue to invest in areas
24 which have fewer customers and declining sales, while increasing investment in growing
25 areas, presents a risk to long term cost recovery. In the near term, Newfoundland
26 Power's corporate business strategy is to respond to this risk by continuing to maintain
27 service quality and effectively manage costs.
28

29 Over the longer term, risks associated with demographic changes (which include both a
30 declining and rapidly aging population) might include overall declining energy sales.
31 These risks are unlikely to present themselves in isolation. For example, recovery of
32 increasing energy supply costs from Hydro may make it more difficult for Newfoundland
33 Power to recover its own costs, including its allowed return.¹⁰ In addition, there are
34 limits to the cost flexibility available to the Company to respond to changes in the
35 business.¹¹
36

37 Newfoundland Power's corporate business strategy is not formulated in formal detailed
38 assessments over fixed 5, 10 and 20 year time horizons as this question suggests.

⁹ See the Company Evidence filed in support of this Application (*Volume 1, Application and Company Evidence, Section 3: Finance*, page 3-18 to 3-21).

¹⁰ In the early 1990s, as the Company responded to population decline, it had difficulty earning its allowed return on equity. In the six years from 1990 through 1995, Newfoundland Power was able to earn its allowed return on equity in only one year. (See response to Request for Information CA-NP-381.)

¹¹ See the Company Evidence filed in support of this Application (*Volume 1, Application and Company Evidence, Section 3: Finance*, page 3-23 to 3-24).

1 However, the Company does assess risk dynamics on an ongoing basis with a view to
2 determining appropriate practical steps available to it to permit the fulfillment of the
3 obligation to serve customers at least cost and earn its allowed return.