

1 **Volume 1, Section 2 – Customer Operations**
2

3 **Q. (page 11, lines 8 to 10) “Forecast 2008 operating costs are virtually unchanged from**
4 **actual 2003 operating costs and are consistent with efficient management and the**
5 **least cost delivery of reliable service to customers.” Please detail all operating cost**
6 **cutting measures implemented from 2003 to those planned during the test year and**
7 **explain how each has contributed to cost savings at NP and is expected to contribute**
8 **to cost savings in the test year.**
9

10 **A. *Introductory***

11 Newfoundland Power does not maintain a catalogue of cost cutting measures.

12
13 Newfoundland Power’s cost management involves a large number of initiatives of
14 varying size, combining to reduce overall costs. Newfoundland Power approach to cost
15 management is to employ prudent management and sound engineering judgment to
16 ensure that long-term cost control is reasonably balanced with the long-term quality of
17 service it is required to provide to its customers.
18

19 It is the *overall* effect of Newfoundland Power’s short-term and long-term cost
20 management which contributes to the cost stability inherent in the forecast for 2008.
21

22 The response to CA-NP-14 provides a reasonable summary of the aggregate effect of
23 Newfoundland Power’s cost management efforts for the 10-year period ending in 2006.
24

25 ***Labour Costs***

26 Labour costs comprise almost 58% of forecast operating costs in 2008.
27

28 For information on forecast 2008 productivity in labour cost management, please refer to
29 the response to CA-NP-47.
30

31 Forecast 2008 labour cost broadly mirror annual labour costs since 2002. Longer-term
32 labour cost productivity is also reflected in both Newfoundland Power’s long-term
33 overall operating labour cost stability and declining number of employees.
34

35 The early retirement program offered in 2005 was a significant contributor to labour cost
36 stability since 2003. It crystallized annual savings in operating salaries and pension costs
37 of approximately \$2 million from 2006 to 2014 which will continue to provide benefits to
38 customers through that period (see Company evidence, *Exhibit 3 Net Present Value*
39 *Analysis of the 2005 ERP*).
40

41 Newfoundland Power has reduced its workforce by approximately 6% since 2002
42 (see Company evidence, page 19).
43

1 ***Non-Labour Costs***

2 Newfoundland Power's non-labour management cost productivity is also reflected in
3 long-term overall operating non-labour cost stability.

4
5 Forecast 2008 non-labour costs are \$20,902,000 which broadly mirror annual non-labour
6 costs since 2002. Newfoundland Power's actual 1998 non-labour costs were \$20,693,000,
7 which is \$209,000, or approximately 1 per cent, less than forecast 2008 non-labour costs.
8 Inflation between 1998 and 2008 is expected to be over 25 per cent.

9
10 ***Concluding***

11 Newfoundland Power is not in a position to *detail all* operating cost cutting measures
12 implemented from 2003 through to 2008 and *explain how each* has (or is expected) to
13 contributed to savings in the test year.

14
15 However, Newfoundland Power believes that forecast 2008 operating costs are consistent
16 with efficient management and the least cost delivery of reliable service to customers.