

1 **Q. With reference to CA-NP-25, NP states that it "does not maintain a catalogue of**  
2 **cost cutting measures." NP then states that "Newfoundland Power's cost**  
3 **management involves a large number of initiatives of varying size, combining to**  
4 **reduce overall costs." Would it not be reasonable for intervenors to expect that NP**  
5 **would be in a position to detail the specific initiatives it has taken to reduce overall**  
6 **costs as a means of ensuring meaningful oversight of NP's costs management in**  
7 **addition to providing a summary of the "aggregate effect" of NP's cost**  
8 **managements efforts?**

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10 **A. I. Introductory**

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12 Newfoundland Power's response to CA-NP-25 is a reasonable response to the question  
13 posed.

14  
15 The request that Newfoundland Power "...*detail all* operating cost cutting measures  
16 implemented from 2003..." and "...*explain how each* has contributed to cost savings..."  
17 is not a reasonable one.

18  
19 The relationship between cost management and its impacts (both in terms of cost and  
20 service) in an electric utility is more complex than the question posed in CA-NP-25  
21 appears to imply.

22  
23 This response may be helpful in illustrating Newfoundland Power's view of this  
24 relationship and how it affects cost management at Newfoundland Power.

## 25 26 **II. The Relationship between Cost Management and Service**

### 27 28 ***General***

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30 Cost management must be consistent with the fulfillment of the Company's obligation to  
31 provide a reasonable level of service to its customers.<sup>1</sup> For this reason, Newfoundland  
32 Power's continuing cost management efforts are principally aimed at achieving  
33 *sustainable* cost efficiencies in its operations.<sup>2</sup>

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<sup>1</sup> The public policy requirement of management efficiency found in s. 3 (b) (i) of the *Electrical Power Control Act, 1994*, is not viewed by Newfoundland Power in isolation. Newfoundland Power is also required to provide reliable service pursuant to s. 3 (b) (iii) and ensure equitable access to an adequate supply of power pursuant to s. 3 (b) (ii). Newfoundland Power's Company evidence filed in support of the 2008 General Rate Application addresses *all* of these public policy requirements.

<sup>2</sup> This approach is consistent with the Company's view of its obligation to serve as a *long-term* obligation.

1 Newfoundland Power does not view cost management as an exercise aimed simply at  
2 *cost cutting* because such an approach does not appropriately reflect the relationship  
3 between costs and service.<sup>3</sup>  
4

### 5 ***A Practical Example of the Relationship***

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7 In late 2003, the Company established a *technical contact process* aimed at improving  
8 the efficiency of its overall response to customer requirements by improving how the  
9 Company dealt with customers' technical requests (i.e., requests for service connections;  
10 pole relocations; easements, etc.).  
11

12 Historically, technical requests were handled by the Company's technologists who  
13 operated across the Company's service territory. By redirecting such technical requests  
14 to the Company's Customer Contact Centre, it was expected that field efficiencies might  
15 be gained (by reducing the amount of distribution technologists' time spent on updating  
16 customers and contractors) and service improvement achieved (by providing a single  
17 telephone number for customers to call about all non-emergency matters relating to  
18 service).  
19

20 Approximately 18 months after initiating this process, the Company undertook the 2005  
21 early retirement program (the "2005 ERP"). At the time the Company planned the 2005  
22 ERP, it was forecast that approximately 30% of participants (23 of 75 employees) would  
23 need to be replaced.<sup>4</sup> Part of the low level in required replacements was attributable to a  
24 reduced requirement to replace technologists as a result of the technical contact process  
25 initiative established in 2003.  
26

27 The 2005 ERP has effectively reduced Newfoundland Power's 2008 operating salary  
28 costs by approximately \$2 million from what they would otherwise be.<sup>5</sup>  
29

30 The establishment of a technical contact process in 2003 was aimed at improving the  
31 efficiency of Newfoundland Power's overall service delivery (as opposed to *cost*  
32 *cutting*). By focussing on improving efficiency in these sorts of way, Newfoundland

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<sup>3</sup> Newfoundland Power does have experience in *cost cutting* without due regard for its customers' expectations as to service. In June 1993, Newfoundland Power introduced bi-monthly meter reading in an effort to reduce its operating costs. The implementation of bi-monthly meter reading led to reduced costs, but many customers had found it to be unfair. In Order No. P.U. 7 (1996-97) the Board approved the return to monthly meter reading observing that "...a balance must be struck between customer service and reducing costs." (See Order No. P.U. 7 (1996-97), p. 70).

<sup>4</sup> See Newfoundland Power's November 5, 2004 *Application for Approval of the Expensing and Funding of Costs Associated with the 2005 ERP* (Attachment A to the response to CA-NP-323). In the result, approximately 28% of participants (21 of 76 employees) were replaced (see the response to CA-NP-44).

<sup>5</sup> See Exhibit 3, *Net Present Value Analysis of the 2005 ERP (Column H)*.

1 Power has been able to reap *sustainable* benefits from more significant cost management  
2 initiatives such as the 2005 ERP.<sup>6</sup>

### 3 4 **III. Justifying Cost Management**

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6 It is the *overall effect* of Newfoundland Power's cost management efforts on both its  
7 costs and its service levels which are most meaningful to its customers. Accordingly, the  
8 Company's continuing cost management efforts are focussed on the *overall impacts* on  
9 cost and service, both in the short and long-term.

10  
11 The overall effect of cost management efforts will necessarily be contributed to by many  
12 day-to-day management decisions. A decision to give broader responsibilities to one  
13 employee of demonstrated capability is an example of such a decision. The decision will  
14 have both short-term and long-term cost effects. In the short-term, the decision might  
15 result in deferral of, or perhaps, elimination of the need to hire an additional employee  
16 and a requirement to provide additional compensation to reflect additional responsibility  
17 assumed by the employee. In the long-term, the decision may assist in the development  
18 of the necessary leadership required to ensure long-term, cost-effective service delivery.

19  
20 In making day-to-day decisions of this nature, management at Newfoundland Power are  
21 purposeful in their actions. They consider current and future impacts upon the  
22 Company's obligation to serve its customers. Management does not, however, produce  
23 *detailed analysis* of the short and long-term impacts of such day-to-day decisions for  
24 either management, or regulatory, purposes.<sup>7</sup>

25  
26 Larger initiatives that impact overall costs are obviously different. For example, the  
27 2005 ERP which effectively reduced the Company's cost structure (and its 2008 test year  
28 costs) is described in the Company's prefiled evidence and supported by economic  
29 analysis.<sup>8</sup> In making a management decision as significant as the offering of the 2005  
30 ERP, Newfoundland Power recognizes the need to forecast cost impacts for both  
31 management and regulatory purposes.<sup>9</sup>

32  
33 Newfoundland Power believes its approach to cost management is responsive to its  
34 customers' expectations as to price and service. In addition, Newfoundland Power  
35 believes such an approach is responsive to its regulatory obligations to manage  
36 efficiently and deliver least cost reliable service to its customers.

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<sup>6</sup> From a customer perspective, the combined result of the technical contact process initiated in 2003 and the 2005 ERP is a sustainable reduction in costs without degradation of customer service. Any analysis of the relative contribution of each of the technical contact process and 2005 ERP is, in Newfoundland Power's view, unnecessary.

<sup>7</sup> The production of such detailed analysis on a routine basis would be possible. However, it would impose a cost on Newfoundland Power which, over time, would be borne by the Company's customers.

<sup>8</sup> See the Company's prefiled evidence at pp. 17 *et. seq.* and Exhibit 3, *Net Present Value Analysis of the 2005 ERP*.

<sup>9</sup> See Attachment A to the response to CA-NP-323 which contains such forecast cost impacts.

1           **IV. Concluding**  
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3           Details of “...*all* operating cost cutting measures implemented from 2003 to those  
4           planned during the test year...” together with an explanation of “...how *each* has  
5           contributed to cost savings at Newfoundland Power and is expected to contribute to cost  
6           savings in the test year...” is not, in Newfoundland Power’s view, necessary to ensure  
7           meaningful oversight of Newfoundland Power’s cost management.  
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9           Newfoundland Power recognizes that the determination of what is required to ensure  
10          meaningful oversight of the Company’s cost management is ultimately one for the Board  
11          to make.<sup>10</sup> Newfoundland Power observes that the Board routinely receives information  
12          concerning the Company’s costs and operational performance on both an annual and  
13          quarterly basis.<sup>11</sup>

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<sup>10</sup> This flows from the Board’s broad supervisory jurisdiction under the *Public Utilities Act*.

<sup>11</sup> The Company’s annual and quarterly reports to the Board are found with the response to CA-NP-8. Newfoundland Power’s annual report to the Board is reviewed by the Board’s financial advisors Grant Thornton LLP.