

1 **Volume 1, Section 2 – Customer Operations**
23 **Q. (page 13, Table 5)**
4

- 5 **a. Does NP believe that operating costs per customer are the best indicator of its**
6 **productivity trend? If not, what does NP believe to be the best indicator of its**
7 **productivity trend?**
- 8 **b. Does NP believe that inflation as measured by the provincial Consumer Price**
9 **Index which is used as the deflator to determine operating costs per customer**
10 **in constant dollars is the relevant indicator of its total input price trend**
11 **(ignoring purchased power)? If not, what does NP believe to be the best**
12 **indicator of its total input price trend (ignoring purchased power)?**
- 13 **c. Please provide a table showing for each of the past five years the percentage**
14 **increase in NP's operating costs and inflation (GDP deflator). Also show**
15 **proposed and forecast operating costs and forecast inflation (GDP deflator) for**
16 **the years 2007 through 2010.**
- 17 **d. Please provide a table that compares NP to similar electricity distribution**
18 **companies in Canada and the United States for the years 2002 through 2006 in**
19 **terms of productivity performance.**

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- 21 **A. (a)** Operating cost per customer is one of any number of measures that might be used to
22 assess Newfoundland Power's productivity trend. No single measure is necessarily
23 a *better* indicator than another of the Company's productivity.

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25 In Newfoundland Power's view, its trend in productivity is clearly demonstrated by
26 its ability to hold the line on its controllable operating costs, while continuing to
27 improve service reliability, and maintaining good customer satisfaction results and a
28 strong safety and environmental record.

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- 30 **(b)** In Order No. P. U. 7 (1996-97), the Board accepted Newfoundland Power's use of
31 the GDP deflator for forecasting inflation for non-labour operating expenditures and
32 ordered the Company to research a suitable inflation index to measure
33 Newfoundland industrial cost inflation.

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35 Prior to its 1998 General Rate Application, Newfoundland Power conducted a study
36 of inflation indices as directed by the Board in Order No. P. U. 7 (1996-97). A
37 detailed report was prepared and was filed in the 1998 GRA as Exhibit RGC-5. The
38 report recommended the GDP deflator for Canada as the most suitable inflation
39 index for Newfoundland Power's non-labour costs.

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41 In Order No. P. U. 36 (1998-99), the Board ordered the adoption of the GDP
42 deflator for Canada as an appropriate inflation index for forecasting Newfoundland
43 Power's non-labour expenses. Newfoundland Power still considers the GDP
44 deflator for Canada to be the most suitable indicator of expected inflation for its
45 non-labour costs.

1 Newfoundland Power has not studied the issue of what is the best indicator of its
2 *total input price trends (ignoring purchased power)*.

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4 (c) Table 1 provides the percentage increase in Newfoundland Power's operating costs
5 and inflation (GDP deflator) for the period 2002 to 2008F. Newfoundland Power
6 does not have a detailed operating cost forecast for 2009 and 2010.¹
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8

Table 1
GDP Deflator
and
Percentage Change in Operating Costs

	2002	2003	2004	2005	2006	2007F	2008F
GDP Deflator	0.5%	3.3%	3.1%	3.2%	1.8%	1.3%	1.9%
% Change in Operating Costs	-2.9%	1.4%	-0.8%	0.0%	-0.9%	0.8%	1.0%

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10
11 (d) See the response to CA-NP-26.

¹ In response to request for information CA-NP-111, Newfoundland Power has filed a five-year financial forecast which includes a *proforma* summary forecast of operating costs for 2009 to 2011.