

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

2  
3 **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.**

- 20  
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.

24  
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.

- 29  
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

*Requests for Information*

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1 deflator for Canada to be the most suitable indicator of expected inflation for its  
 2 non-labour costs.

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

- 6  
 7 (c) Table 1 provides the percentage increase in Newfoundland Power's operating costs  
 8 and inflation (GDP deflator) for the period 2002 to 2008F. Newfoundland Power  
 9 does not have a detailed operating cost forecast for 2009 and 2010.<sup>1</sup>

**Table 1**  
**GDP Deflator**  
**and**  
**Percentage Change in Operating Costs**

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007F</b>	<b>2008F</b>
GDP Deflator <sup>2</sup>	0.8%	3.5%	3.2%	3.7%	2.6%	2.9%	1.3%
% Change in Operating Costs	-2.9%	1.4%	-0.8%	0.0%	-0.9%	0.8%	0.6%

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

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<sup>1</sup> In response to request for information CA-NP-111 1<sup>st</sup> Revision, Newfoundland Power has filed a five-year financial forecast which includes a *pro forma* summary forecast of operating costs for 2009 to 2011.

<sup>2</sup> Source – Conference Board of Canada Provincial Forecast, July 18, 2007.