

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

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3 **Q. Is NP considering an ERP in 2008? If not, why not?**

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5 A. Newfoundland Power is not currently considering an early retirement program (“ERP”)  
6 offering for 2008.

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8 The decision by Newfoundland Power whether to offer an ERP involves fairly detailed  
9 assessment of both long-term costs and long-term service capabilities. While ERPs have  
10 helped enable Newfoundland Power to hold costs at historical levels for about a decade, the  
11 offering of an ERP by the Company is conditional not only on long-term cost reduction but  
12 also upon the Company’s continuing long-term capability to fulfill its obligation to serve its  
13 customers.

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15 As indicated at page 20 of the Company evidence, current workforce demographics and the  
16 labour market for core utility occupations (linepersons, industrial electricians and  
17 millwrights, technologists, and engineers) will likely influence any future ERP offering.

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19 Current demographics will impact the degree to which ERPs will provide long-term cost  
20 benefits.<sup>1</sup> The economics of an ERP are dependent on long-term reduction in labour costs  
21 largely as a result of a reduction in the overall number of employees. The extent to which  
22 employees may elect to take early retirement without the incentive of an ERP (and have to be  
23 replaced) is a further consideration in the assessment of the economic feasibility of another  
24 ERP.

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26 Although Newfoundland Power has not yet experienced difficulty in recruiting and  
27 retaining qualified personnel in the core utility occupations up to this time, the Company is  
28 aware that other Canadian utilities are finding it increasingly difficult to recruit and retain  
29 experienced utility employees. The extent to which this apparent tightening of the labour  
30 market in other regions of the Country impacts the local labour market in the core utility  
31 occupations will be monitored by the Company. The future competitiveness of the labour  
32 market for utility occupations is a factor in the Company’s consideration of the feasibility  
33 of another ERP. This is necessary to avoid the Company financially incenting retirements  
34 which inadvertently compromise cost efficiency<sup>2</sup> and/or the maintenance of the necessary  
35 skills to fulfill the Company’s obligations to serve.<sup>3</sup>

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<sup>1</sup> At present, 10% of employees in the core utility occupations will be eligible for retirement over the next five years and 40% will be eligible in ten years without the incentive of an ERP.

<sup>2</sup> This could occur if necessary replacement labour was more expensive than current labour.

<sup>3</sup> This could occur if retirements incented by an ERP resulted in a material experience loss, particularly in core utility occupations.

1           While the Company is not currently considering an ERP offering for 2008, the Company  
2           observes that an ERP offering in 2008 would not reduce test year costs. ERP feasibility is  
3           based upon long-term cost reduction as the costs of an ERP will typically exceed the  
4           benefits in the year of the ERP.<sup>4</sup> Accordingly, the viability of any future ERP would likely  
5           be subject to a Board order effectively permitting the costs to be recovered over a longer  
6           period.<sup>5</sup>

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<sup>4</sup> All ERPs offered by the Company have had costs in excess of benefits in the year of offer.

<sup>5</sup> The Board approved an accounting proposal related to the 2005 ERP in Order No. P.U. 49 (2004).