Reference: Section 2: Customer Operations

Q. Volume 1, page 2-32. Gross operating costs are forecast to increase by 11% from 2019 to 2023. Explain how Newfoundland Power considered the upwards pressure on rates from the Muskrat Falls Project outlined on pages 1-6 to 1-7 and the resulting impact on customers in determining the forecast operating costs. In the response describe any specific actions taken by Newfoundland Power to keep operating costs as low as possible to reduce the burden on customers of increased costs in the current environment.

A. The provincial power policy requires Newfoundland Power to operate in a manner that results in power being delivered to customers at *the lowest possible cost consistent with reliable service.*[1] Balancing the cost and reliability of the service provided to customers is consistent with meeting customers' service expectations.[2]

Newfoundland Power manages its operating costs to provide reliable, least-cost service to its customers in *all* operating environments and economic conditions. The Muskrat Falls Project has not altered the Company's continued focus on providing reliable service to its customers at the lowest possible cost, as required by the provincial power policy.

Newfoundland Power's operating cost forecast to 2023 reflects the Company's anticipated work requirements. Non-labour costs are forecast to increase by approximately 15% from 2019 to 2023. The increase in non-labour costs primary reflects higher insurance costs, computing equipment and software costs, and inflationary increases.[3] These costs are largely beyond the control of management.

The efficiency of Newfoundland Power's operations can be observed in its forecast labour costs, which are most directly within management's control. Labour costs are forecast to increase by approximately 8% from 2019 to 2023, or 2% annually. This is approximately 1% less than the Company's labour inflation rate, which indicates a reasonable level of operating efficiency.[4]

Newfoundland Power's operating efficiency can also be observed in its operating cost per customer. When adjusted for inflation, the Company's operating costs are forecast to be approximately $233/customer in 2023, compared to a cost of approximately $235/customer in 2020. Newfoundland Power's operating cost per customer in 2023 is approximately 16% less than it was in 2011. This demonstrates the Company's continued focus on maintaining its overall operating efficiency over the forecast period.

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1 See Section 3(b)(iii) of the *Electrical Power Control Act, 1994*.

2 Approximately 1,800 Newfoundland Power customers are surveyed each quarter. Survey results indicate the 2 most important issues to customers are reliability and price.

3 See the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2: Customer Operations,* page 2-39.

4 See response to Request for Information PUB-NP-022 and the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2: Customer Operations,* page 2-38.

Specific actions taken by Newfoundland Power to maintain its operating efficiency include:

(i) Implementing LED street lights. LED street lights have lower energy and maintenance requirements. The implementation of the *LED Street Lighting Replacement Plan* has reduced the Company's operating cost forecast by approximately $1.9 million.[5]

(ii) Optimizing Automated Meter Reading ("AMR") technology. Newfoundland Power has optimized its use of AMR technology to achieve additional operating efficiencies on a year-over-year basis. This has reduced the Company's operating costs by over $2 million from 2012 to 2020. This benefit is reflected in the Company's operating cost forecast.[6]

(iii) Implementing initiatives that achieve efficient customer service delivery. Newfoundland Power's customer service costs were reduced by 18% from 2011 to 2020.[7] Initiatives such as a new High-Volume Call Answering system, enhanced website self-service options and the continued promotion of ebills will support the Company in maintaining its customer service efficiency.[8]

(iv) Using technology to reduce or eliminate manual business processes. Newfoundland Power routinely implements enhancements to its software applications to eliminate paper-based processes and reduce the manual re-keying of information. For example, the Company has reduced its 2023 revenue requirement by approximately $90,000 due to efficiencies expected through its Application Enhancements capital project.[9]

(v) Replacing Newfoundland Power's Customer Service System. The replacement system is expected to be implemented in 2023. The Company has adjusted its operating cost forecast to reflect labour efficiencies expected through the elimination of manual billing processes. This will help offset higher support costs associated with the replacement system, thereby permitting the Company to maintain its overall efficiency.[10]

[5] See the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2: Customer Operations*, page 2-34, footnote 77.
[6] Ibid., page 2-8.
[7] Ibid., page 2-6.
[8] See response to Request for Information NLH-NP-051 for information on efficiencies in Newfoundland Power's customer service delivery.
[9] Includes decreased labour costs of approximately $148,000, less increased non-labour costs of approximately $58,000 ($148,000 - $58,000 = $90,000). See response to Request for Information PUB-NP-022.
[10] See response to Request for Information PUB-NP-013.

(vi) Implementing a new Outage Management System ("OMS"). The new OMS was implemented in 2019. The OMS automatically assesses outage reports from customers and groups related outages, such as multiple reports from customers on a single distribution feeder.[11] The OMS will permit the Company to maintain its efficiency when responding to customer outages, particularly during significant events.

(vii) Continuing to automate the distribution system. The Company automated 100% of its distribution feeders at year-end 2019. Additional automation is being achieved through the installation of automated downline reclosers that sectionalize the distribution system. This automation supports an efficient response to customer outages, as service can be restored without dispatching field crews.[12]

See response to Request for Information PUB-NP-010 for additional information on the Company's long-term performance and the recovery of its costs in the context of the Muskrat Falls Project.

[11] For example, following a severe blizzard in January 2020, the OMS automatically assessed and grouped approximately 5,000 reports related to approximately 1,300 customer outages. Ibid., page 2-28.

[12] For example, the operation of 5 downline reclosers during a severe blizzard in January 2020 avoided approximately 3.5 million customer outage minutes without incurring labour costs associating with dispatching field crews. Ibid., page 2-30.